



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE  
REFERENCES COMMITTEE

**Reference: Examination of developments in contemporary Japan and  
the implications for Australia**

WEDNESDAY, 14 APRIL 1999

SYDNEY

BY AUTHORITY OF THE SENATE

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**SENATE**  
**FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE**  
**Wednesday, 14 April 1999**

**Members:** Senator Hogg (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Lightfoot, Quirke, West and Woodley

**Substitute members:** None

**Participating members:** Senators Abetz, Bolkus, Boswell, Brown, Brownhill, Colston, Cook, Eggleston, Faulkner, Forshaw, Gibbs, Harradine, McGauran and Margetts

**Senators in attendance:** Senators Hogg, Lightfoot, Sandy Macdonald and Quirke

**Terms of reference for the inquiry:**

- (1) Examination of developments in contemporary Japan with respect to:
  - (a) contemporary economic conditions, including:
    - (i) the impact of low and expected continuing low growth;
    - (ii) the effect of the Asia currency crisis;
    - (iii) blockages to economic efficiency and areas of reform in the domestic economy;  
and
    - (iv) trading patterns and the significance of Japan's growing trade surplus in its relations with its leading trading partners;
  - (b) contemporary political changes, including:
    - (i) the changes in the major political parties, the emergence of new parties and the electoral and structural changes that are occurring;
    - (ii) the political significance and power of land-holders and farmers in influencing social and economic progress; and
    - (iii) Japan's view of itself in the world and its role in the Asian region;
  - (c) significant contemporary changes in Japanese society;

- (2) examination of the implications of the above matters for Australia.

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**Committee met at 9.37 a.m.**

**PANAGIOTOPOULOS, Mr Manuel (Private capacity)**

**CHAIR**—Good morning and welcome. I declare open this public meeting of the Senate Foreign Affairs, Defence and Trade References Committee, which is inquiring into the matter of economic, political and social change in Japan and its implications for Australia. During February this year the committee conducted four public hearings into this inquiry in Canberra, Melbourne and Perth. The hearing today is the first of three hearings to be conducted in Sydney and Brisbane.

I welcome to this hearing Mr Manuel Panagiotopoulos, a consultant and past president of the former Australia-Japan Economic Institute. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a written submission from you. Are there any alterations or additions you would like to make to your submission at this stage?

**Mr Panagiotopoulos**—No.

**CHAIR**—For the purpose of obtaining an accurate record, would you remain behind at the end of the proceedings so that the Hansard officer can check spellings and sources of information provided this morning. I now invite you to make a brief opening statement, and then we will proceed to questions.

**Mr Panagiotopoulos**—I would just like to present an executive summary of the issues in my paper, and then we can start a discussion after that. The structure of Japan's imports has been subject to much greater change than their exports. This means that a much greater number of manufactured goods are being imported, a trend that has been proceeding for many years, but in the past decade there has been reached a level and a pace of growth which can be called significant. In fact, manufactures actually make up more than 50 per cent of Japan's imports now. Mineral fuels and foodstuff imports still occupy the largest single sectors, but raw materials have been overtaken by both general machinery and electrical machinery imports. In the 10 years since 1988 these two categories have doubled in size. However, Japanese imports from Australia do not repeat this pattern. In 1997 about three-quarters of imports from Australia were raw materials, energy or unprocessed goods.

There are two points to be made here: Australia is a major supplier of industrial supplies and food to Japan. In several areas Australia has maintained or even increased its share of Japanese imports, so on that side we have done remarkably well and we continue to do so. The second point is that, during the same decade, manufactured goods have become a much greater proportion of Australia's overall exports. So, while Japan's total manufactured imports have been increasing and Australia's total manufactured exports have been increasing, this has not been the case in trade between the two countries. There is great potential for research and policy action in this area.

As the USA is to Japan, Japan is Australia's largest export market by far—more than 2½ times the next largest market. Although this share has fallen, it will continue to dominate for

at least a decade. The Japanese market is the most affluent in the region, has a single language, an advanced legal system, is deregulating and has strong friendship ties with Australia. That small sentence has a lot of things in it that you can probably ask me about.

In the five years from 1993 to 1997, Japanese companies invested ¥25.4 trillion in overseas operations. Japanese FDI has been increasing every year, especially in the expansion of manufacturing facilities in the Asian region. Asia received almost one-quarter of all Japanese investment in this period, mostly in manufacturing. The first point to make is that direct investment is made with a long-term perspective. It is likely that the previous pattern of Japanese FDI will continue, as it reflects the changing Japanese industrial structure as well as the future growth of the region. The second point to make is that FDI has an effect on trade. On the one hand, it has increased Japanese exports of capital goods to Asia but, more importantly from the Australian perspective, it has greatly increased the level of manufactured imports from Asia, including capital goods, consumer durables and consumer non-durables. These imports are a combination of goods made by Japanese subsidiaries and by other Asian firms. Japanese FDI into Australia during the period 1993-97 has totalled ¥892 billion, or about 3.5 per cent of the total FDI in the last five years.

The primary areas of Japanese investment in Australia have been mining and energy, automotive, metals, wholesale and retail trade and travel services. In addition, in the late 1980s there were very large investments in real estate, part of which should be considered as portfolio investment. The rest were related directly to the creation of infrastructure in the tourism industry. A large proportion of investment in real estate has since left due to the financial troubles of the parent companies in Japan. However, Japanese investment in Australia is well established and will remain for the long term. The challenge for Australia is to find mutually beneficial ways of promoting further investment by Japanese companies, both in established and new sectors. There is enormous scope for benefits for Australia in several respects: investment of capital, employment, expansion of exports and diversification of exports.

**Senator LIGHTFOOT**—You said that the raw materials have been overtaken by the imports into Japan of electrical and other engineering materials and general engineering materials. It is something of a phenomenon for Japan to be importing. Is Japan lagging in terms of state-of-the-art goods that it would normally produce itself?

**Mr Panagiotopoulos**—Fundamentally the Japanese market is much more open than it used to be. Japan is encouraging a lot of imports of manufactured goods. The other thing is that a lot of these imports are made by Japanese subsidiaries in Asia, for example, or as joint ventures with Asian companies in the Asian region. So a certain percentage—I think it is about 14 per cent or 15 per cent—are what you might call reimports.

**Senator LIGHTFOOT**—What percentage was that?

**Mr Panagiotopoulos**—About 15 per cent, but I could be wrong there. Japanese companies go into Asia as part of normal successful export strategies to get closer to their base and also to take advantage of lower unit labour costs and other things. Some of the goods produced in those countries are for the local market or for countries within that region, and a certain percentage are reimported back into Japan. So there are two things

happening there: Japanese labour costs and other costs are relatively high, so things that they can produce cheaper they do elsewhere and then reimport them, and they continue to make the higher value added materials themselves.

**Senator LIGHTFOOT**—Has Japan shot itself in the foot in economic terms by expanding too rapidly in countries where the unit costs of goods traditionally manufactured in Japan are much, much lower—for instance, Indonesia, Thailand, Malaysia and South Korea? They are four economies that are still wallowing, particularly Indonesia. In retrospect, did Japan expand too quickly to take advantage of lower labour costs instead of maintaining relatively high labour costs in Japan? Has that expansion been to the detriment of its economy, which is something that is manifesting itself now?

**Mr Panagiotopoulos**—No, I do not think so. It relates to the question of what is called the ‘hollowing out’ of industry. For example, have the Japanese moved too much of their manufacturing capacity offshore and put their domestic economy at risk? FDI is very complicated; it does not just have unit labour costs involved. A very large reason for Japanese investment in Asia has been the extraordinary growth of the Asian region, and the Japanese have been the most aggressive—

**Senator LIGHTFOOT**—Sorry to interrupt you, but Japanese expansion in these areas and the expansion of the economies as a result of the Japanese expansion in those areas are interdependent, aren’t they?

**Mr Panagiotopoulos**—Yes, you cannot really separate them, but the countries in the region had set themselves the right fundamentals to have high levels of economic growth as well. They had good literacy rates, they were interested in creating infrastructure, et cetera, and they were much more open economies. Japanese investment, married together with all these things, helped the region to grow very quickly, and that in turn helped Australian exports to the region to grow as well. So it is a very interdependent thing. What I am saying is that it is not just unit labour costs that drive foreign direct investment; the other thing is that, compared with other advanced industrial countries like the US, Germany and the UK, the level of Japanese manufacturing capacity offshore is still lower than in those countries. So in a sense the Japanese FDI of this large scale is relatively recent and still has not caught up with the level of other countries of that advanced industrial nature have achieved.

Generally speaking, it is quite a rational strategy to move facilities offshore as your own costs increase because of your success. Your success forces you to go to shores outside your own; plus it means you get much closer to the customer whereas previously you could do it at arms length by exporting or using an agent or licensing. It is much better for you if you can go there and meet the changing demands of a customer and to have better control over the quality of what is produced as well.

**Senator LIGHTFOOT**—I ask this with 20/20 hindsight: did Japan suffer any downturn because of the policy of exporting some goods to developing countries and those developing countries then taking advantage of their status as a developing country and re-exporting those, say, assembled goods to other areas of the developed world? There has been a tightening up of that, and I do not know to what effect.



For instance, take automobile batteries. The internal plates of the lead acid batteries were made in Japan but the simple extruded battery casings were made, say, in Malaysia. They were then exported to Australia and other parts of the world as a developing country export with some advantages with respect to the taxation or import duty that was placed on those. Forget the World Trade Organisation at the moment. Has Japan suffered anything appreciably with respect to that—because there has been a tightening up of that area?

**Mr Panagiotopoulos**—Do you mean in the sense that, because these other countries have become competitive in exports, they are taking export markets away from Japan?

**Senator LIGHTFOOT**—It was really the breaking of the spirit of the developing country status. Japan was not the only one to do it. I think most countries do it if they can get away with it. It is very Machiavellian. Japan was exporting some goods in a pre-assembled form, they were being assembled by the developing country and they were then exported from that developing country using the advantages of the developing country status to obtain a better entry into importing countries.

**Mr Panagiotopoulos**—I am still not aware of what you mean by ‘has that affected the Japanese negatively?’

**Senator LIGHTFOOT**—Australia has tightened up and some of the countries that are in that World Trade Organisation—

**Mr Panagiotopoulos**—They cannot use that status thing any more, you mean?

**Senator LIGHTFOOT**—Yes.

**Mr Panagiotopoulos**—I am not really aware of any many major effects from that.

**Senator LIGHTFOOT**—You said in your submission that there has been a shift in the Japanese work force to the services sector. Does that growth in the services sector present an opportunity for Australian business or is it something that Japan will absorb itself within its own particular sphere of expertise?

**Mr Panagiotopoulos**—There are several issues connected with this shift. It is natural for advanced industrial economies to have a much larger proportion of their domestic economy produced by the services industries. I think in Australia’s case it is about 70 per cent. It is a normal progression. In a sense the Japanese still have to catch up to that, because their manufacturing sector has been such a large part of their economy for so long.

The second thing is the services sector is far less productive and efficient in Japan than their manufacturing sector is, because it has been far more regulated in the past. This is changing dramatically. Lots of things are changing in the services sector. There are lots of deregulations. In the last decade before this decade, you could not build a new department store without going through the tortures of Dante’s books. There were all these ways that you could not do it because of the entrenched power of small business people. But a lot of that has been brushed away.

**Senator LIGHTFOOT**—By internal necessity, or is it some influence from outside?

**Mr Panagiotopoulos**—It is all sorts of things. Sometimes Japanese authorities prefer to be badgered by foreign powers because they can then blame somebody else for something that they know they have to do. I guess it is the McKinsey approach to changing corporations: you get someone else to tell you what you already know. But that means there is enormous change happening. Wherever there is enormous change there are enormous opportunities.

The thing that I did not mention in here, but I can mention now, is that in exactly the same way that Japan's imports of value added goods have increased dramatically in the last decade so have its imports of services. About 50 per cent of their imports of services are made up by Japanese tourism overseas, but 50 per cent is made up by other stuff: financial services, telecommunications, computers, architectural services—all sorts of stuff that is called services. When you look at its relationship with Australia, less than 10 per cent is made up of services other than tourism services. So again the picture is repeated. Japan has been deregulating. It has been opening its markets. It has been importing value added goods and services, but not from Australia. Australia has been increasing its exports of value added goods and services, but not to Japan.

**Senator LIGHTFOOT**—Have we been losing market share?

**Mr Panagiotopoulos**—We have not been doing anything. Basically, it has stayed the same. If we look at 1988 and 1997, we are looking at the same graph. I ask myself why this is the case. We have a terrific relationship with Japan; we have built up a great relationship over 30 to 40 years of consistent work. We have worked at cultivating this relationship, and 99.9 per cent of our interests coincide. Yes, there are a few things that we talk about on the margin, like rice imports and whaling, et cetera. But they are usually to do with other parties as well—another country, which we will not mention.

Generally speaking, I find it hard to think of another bilateral relationship around the world which is as good. It is the most affluent, by a long shot. If you put a graph—and I had such a graph at a conference—of Japan on one side, just a rectangle, and you put all the other countries of the Asian region on top of each other, they are still only half the size of Japan.

The Japanese economy is the largest economy in this region by a very, very long way. Japan is our largest export market and our closest trading partner. It has two languages, if you include English. It has laws. It is deregulating. It has Japan-Australia-New Zealand societies all over the place. The Japanese really like us. Yet we just continue to do really well what we have been doing: selling raw materials, energy and foodstuff. We have been doing that really well, but that is becoming a far less important part of Japan's imports than it used to be. So, if we are thinking about the basis of our relationship, we are successfully competing in a shrinking market.

**Senator LIGHTFOOT**—If I could interrupt you just there on that point: there seems to be almost an international conspiracy to keep Australia exporting. This is done to some

degree with the concurrence, I think, of industry in Australia: to keep Australia as an exporter of raw materials; that is, to dig bigger holes and sell our mineral commodities.

I find this strange. We have the energy, we have the raw materials. We are the biggest exporters of coal in the world—13 per cent of the world's coal production. We are the biggest exporters of iron ore, the biggest exporters of alumina powder, the biggest exporters of uranium, the biggest exporters—or we will be—of nickel and the biggest exporters of cobalt and gold. We have all these commodities to which we are not value adding to any significant degree. What is it that prevents Australia from value adding?

This concerns me. There has been an 11 per cent drop in the cost of our iron ore exports to Japan. That does not mean Japan is going to use any more iron ore, unfortunately; in fact, you may care to comment on that. But what does Australia have to do, in your view, to become a manufacturing industry rather than an exporter of raw materials?

**Mr Panagiotopoulos**—That is a very hard question.

**CHAIR**—Whilst you are pondering that hard question, perhaps I can come in just over the top of that. Is there some sort of strategy that we now need to look at because of the changing circumstances?

**Mr Panagiotopoulos**—We have to understand those reasons, and I do not think that we do yet. I do not really have the correct answer for you. I remember, possibly at the end of the 1980s, maybe 1990, talking to one of the heads of the Japanese steel companies in Australia. I said, 'How come you guys don't have a steel mill here? You've got the iron ore here, you've got the coal here; why don't you put the two together?' He said, 'Because it's more expensive to take coal from New South Wales to Western Australia than it is to take it to Japan.' I did not have a comeback. I could not answer that one.

We also have rigidities in our own economy that make it more economically acceptable to take those things back to Japan and add value to them there. Maybe since that decade it has changed. I understand that there are, or at some stage will be, a couple of small steel mills operating in Western Australia.

**Senator LIGHTFOOT**—But not in the near future, regrettably.

**Mr Panagiotopoulos**—No, not in the near future. With value adding to commodities locally, if it is not happening, it is not happening for a reason. It means that it is not economically viable for corporations to do that here.

**Senator LIGHTFOOT**—But where is the logjam? It is not just transporting the coal from Newcastle to WA.

**Mr Panagiotopoulos**—Yes, I do not have the answer. One of the points of my paper is that we need a lot of research done; we need to ask the right kinds of questions to find out why this is not the case. Whether we should become a major manufacturing exporter or not is another question we should ask. Should we be trying to do this, or should we be just trying to create conditions for the most competitive companies to do well and, therefore, whatever

those companies produce—whether services, manufactures or alumina—it will create wealth for this country. Some people now are saying that Japan's problem is that it has been too good at manufacturing exports, that now it finds it hard to push itself into services, which is the highest growth industry of all.

**Senator LIGHTFOOT**—Has it been too good, do you think?

**Mr Panagiotopoulos**—They have been very successful.

**Senator LIGHTFOOT**—They have been highly successful.

**Mr Panagiotopoulos**—I talked to an economist last week, and he said, 'That's their problem, they've been too successful.' It is the mind-set now. They have to get out of this 'we are producers of goods' mentality. I do not know whether or not that is true.

**CHAIR**—Do we have the same mind-set in terms of digging things out of the ground, as Senator Lightfoot says?

**Mr Panagiotopoulos**—I do not know. If you look at Australia's overall export profile, we have increased our exports of manufactured goods, we have increased our exports of different services; we just have not done it with Japan. I do not know why that is.

**Senator SANDY MACDONALD**—Why it is that the Japanese import a lesser proportion of their food now? Is it only from Australia, or is it that they just import less food?

**Mr Panagiotopoulos**—Do they?

**Senator SANDY MACDONALD**—According to your graph here—

**Mr Panagiotopoulos**—Which one is that?

**Senator SANDY MACDONALD**—That is on page 10—comparing 1988 with 1997, food is slightly reduced.

**Mr Panagiotopoulos**—That is a share, though. It has not in absolute terms, not in numbers. It is just that they have been increasing their imports of manufactured goods, like general machinery and so on, which are more expensive than food. These are not volume graphs; they are value graphs. The percentage of food has fallen, but it is still a very, very large sector. They cannot do otherwise. They cannot make enough food, so they are always going to be importing food.

**Senator SANDY MACDONALD**—As people's standard of living rises, their food imports generally rise exponentially—

**Mr Panagiotopoulos**—Yes.

**Senator SANDY MACDONALD**—as we have seen in Indonesia, for instance. That was a wheat market that did not exist for us a short time ago and, until the current crisis, it was probably our second largest market.

**Mr Panagiotopoulos**—If you look at the numbers on the graph at the bottom of that page, you will see that ‘food direct consumption’—which is the third from the top—is still growing. It has not stopped growing, even though there has been a recession in Japan. It is just that imports of industrial supplies and capital equipment have been growing much faster. That is why the share has fallen a bit.

**Senator LIGHTFOOT**—Do you think the Japanese have been disinclined to invest in Australia’s manufacturing industries, as they have in other parts of the world—and not in low cost countries but high cost countries like Europe and the United States—in part because of the bottleneck, perceived or otherwise, with our ports; or is it our having had some problems with organised labour in Australia that has acted as a disincentive on Japan investing in manufacturing goods in Australia on the same scale she does in Canada, the United States, France or the UK? If not, what has been the disincentive?

**Mr Panagiotopoulos**—You mean Japanese investment in Australian manufacturing?

**Senator LIGHTFOOT**—Yes. For example, we have a car industry in Australia that Japan significantly contributes to, but not a great deal of other major investments—for instance, in the electrical industries.

**Mr Panagiotopoulos**—A lot of the investments in electrical industries are in things like semi-conductors, televisions and VCRs. These industries have a large reliance on low unit labour costs. In a high value added industry, like electrical goods, they are the low of the high value added end. Basically, semi-conductors are a commodity. The very, very high end semi-conductors are still made in Japan. For example, Japan now is importing more televisions than it makes.

**Senator LIGHTFOOT**—But I would assume that they are their own televisions.

**Mr Panagiotopoulos**—Yes, they are made by Panasonic or Mitsubishi in Malaysia, for example. That tells you that televisions, in fact, are not very high added; they are fairly low added—in that industry. So you need economies of scale for that to make any real sense. It is very hard to achieve that in Australia.

**Senator LIGHTFOOT**—Why? Where is the logjam? Is it a mental block or is there something that is manifestly so bad in Australia that Japan does not want to invest here to the same degree it does elsewhere? Low unit labour costs aside, in your view, is there any other reason?

**Mr Panagiotopoulos**—We have a higher company tax regime than others in the region, I guess. That does not mean, though, that we have to have a lower tax regime. But probably from the point of view of an investor it should be the same perhaps. It is lower than Japan’s, so that is an advantage, but it is not as low as others. So that would be something to take into consideration.

We have a small population. That is a stumbling block to some of these industries. The single largest reason for opening a manufacturing facility in another country is to supply the domestic market. That probably would take up half of the whole bundle of reasons for doing it. So you expect the domestic market to be growing substantially and to take most of what you produce. The rest is then either exported back to Japan, say, or to third countries. So the size of the Australian economy is one of those obstacles.

But again I do not really think enough has been done to understand the motivations of these companies. We need to find out how the processes of Japanese decision making occurs; how much they really know about Australian conditions.

If you go to Tokyo, you will find that every state of the United States has an office in Tokyo. Every country in the EU has an office. Therefore, consistently, you have lobbying from every single state of the US to Japan: 'Come and invest in Louisiana,' 'Come and invest in Carolina,' 'Come and invest in Tennessee,' or whatever. Then you have five or six from Australia. A lot of voices are clamouring for investment, and you have to be heard. There are still examples of executives in Japan who are uninformed, basically. Their understanding of our country may still be of the Australia of 15, 20 years ago.

**Senator LIGHTFOOT**—Does that misinformation or lack of information at board level in Japan, particularly with some of the bigger companies—Mitsui, Itochu, the vehicle manufacturing companies, the giant electrical companies—go to the view that Australia is just a quarry? Is that something that still pervades the top end of industry in Japan?

**Mr Panagiotopoulos**—My answer is that I do not know, and I think that we should know. I just think, before we can answer any of these questions, we really have to put into process some sort of real research. If they have been moving into countries close to us, we have to understand why that has been the case—rather than Australia.

Maybe they do know all the facts and maybe they have made the right decision, in which case we can say, 'Well, that's not something we should push then because it won't do us any good to lobby in that direction.' It may be that we should be working towards other industries where we do have a chance to have new investment.

**Senator LIGHTFOOT**—I think there is some misinformation in Japan. From figures done by the Western Australian government, energy in the form of natural gas is available—in generic figures, with significant take-outs—at \$A1 a gigajoule, and it was \$4 only five or six years ago. Also, we have the best iron ore in the world. We have 63 per cent FE being taken to Japan; in other words, 37 per cent of that is waste material. Gas that you can get here for \$1 a gigajoule is transported to Japan, with the mere trip adding on two, three or four times its price to the consumer. It seems ludicrous to me that that gas is not used here in combination with the steel. Would you not agree that that seems, on those few facts, somewhat ludicrous?

**Mr Panagiotopoulos**—When you put it like that—but in a sense you have to ask the companies who would be the potential makers of these goods, 'Why haven't you done it?' They might have a perfectly good answer for it.

**Senator LIGHTFOOT**—We would like to have that opportunity. With the People's Republic of China this year, even with a regional downturn, growing at a rate of eight per cent and its steel industry for many years prior to this year having had a growth of 20 per cent—and its steel industry is still growing massively—and with Japan this year being about two per cent as a generic figure in retreat, it will not be long before the PRC is the second biggest economy in the world after the United States. Perhaps it will occur some time early next century. Even if Europe or 'Euroland', in effect, were to come in as one nation and become the second biggest economy, certainly China at some stage next century, given its continued growth, will be of great importance. How will Japan cope with that?

**Mr Panagiotopoulos**—Let me explain to you how long it would take China to reach Japan's size. I did this exercise; it is one that Austrade did before me and I pinched it. If you take Japan's economy in 1996 and give it almost no growth for the foreseeable future, just 0.1 per cent per year, almost nothing, and you take China in 1996 and give it 10 per cent per year every single year—

**Senator LIGHTFOOT**—Compound.

**Mr Panagiotopoulos**—Compound, 10 per cent—it will reach Japan in 2018. I think that is too long; I think it is too far away for us to really worry about that question. For our generation, I think Japan is much more important than China, plus I do not think that China can grow at 10 per cent per annum for the next 20 years.

**Senator LIGHTFOOT**—I think the figure of eight per cent this year was the figure I got from the Chinese Consul General last week. But that is not the steel industry; that is still significantly greater than that.

**Mr Panagiotopoulos**—Yes—and to do that for 20 years consecutively? Plus we are assuming that Japan is going to stay in this condition for the next 20 years. So for the foreseeable future, for the next decade—I do not know if that is foreseeable—I think Japan is really a more important issue for us.

I think we have to do some good research into the opportunities in Japan that are appearing now because of deregulation, while land prices are low and all the costs are falling. And why is it that American companies and European companies are all entering the Japanese market and we are not?

In 1997, there was ¥800 billion investment from overseas firms in Japan. The Australian figure was ¥100 million, which represents a good night out in the Ginza, basically. It is almost zero. And why should it be the case? That is my question. I do not have an answer yet, but that is my question: why is it the case? I have just done this research and saw this pattern emerging, and it is a pattern that I want to question.

**CHAIR**—Where do you think the answer lies? Where should we be looking in this inquiry? Does it lie with the academics? Does it lie with federal government? Does it lie with state government? Where do you see the answer lying?

**Mr Panagiotopoulos**—There is a demand and supply side. We have to understand the Japanese market better. We have to understand where the opportunities are lying. I find people confuse two things: they confuse the macro and the micro. They hear that Japan is in recession. They hear this big number—minus 1.5 per cent, minus two per cent—and they think, ‘Oh, Japan isn’t growing.’ They confuse that with the micro, which is business opportunities. They are two different things. If the Japanese economy does not grow, it does not mean that the Japanese economy is dead. It means it is a little bit less than the size it was last year. But last year it was still the second biggest economy in the world.

**Senator LIGHTFOOT**—With massive surpluses.

**Mr Panagiotopoulos**—Right. And it is deregulating everywhere. It has to, and it is welcoming foreign investment. It has to. It wants new capital. That is one side—to really understand the situation on the Japanese side, and then to understand the situation on the Australian side. Why is it that Australian companies won’t look to Japan? Are they misinformed? Are they well informed, and have decided that it is better to go to the US, Europe or Asia? I find it incongruous that we have such a strong trading relationship and we have not gone any further with it, while other countries have. There are both sides of the equation—and governments as well.

**Senator QUIRKE**—You said a moment ago that our trade in terms of the service sector is absolutely static—that if we got a graph from the late 1980s to the present day the graph would be exactly the same. Is there any evidence of movement there at all, or is it that we have not gone into that area at all?

**Mr Panagiotopoulos**—We just have not got it. We have basically relied on tourism, which is great. I am not making a point that our success in raw materials, energy and tourism is a bad thing; I am just saying that it is not the only thing. It is not the only game that is being played. And why aren’t we playing the other games? We just seem to have made no real effort to enter the Japanese markets in so many places.

**Senator QUIRKE**—Is the growth in this area evidenced in other markets, or is it pretty much the case that we are a bit slothful generally?

**Mr Panagiotopoulos**—No. In overall terms, our exports of services in a variety of areas have increased—not to Japan, but to other places.

**CHAIR**—I would like to take up with you the issue of the Japanese industry moving offshore. How much of that will continue to take place? Have we seen the peak of it, or is it now going to continue at a growth rate such that we need to shift our views of the export of our commodities to the nations where they are shifting their industries?

**Mr Panagiotopoulos**—There has been a lull in the Japanese and overseas investment of manufacturing in Asia because of the Asian crisis. But it is only a lull. Surveys which have been done by the Export-Import Bank indicate that the Japanese companies there are adopting a ‘wait and see’ approach. They are not pulling out. They are consolidating. They are restructuring. But, basically, their expectations for the region are still optimistic. They see a recovery in the long term.



Therefore they have to stay, and they will stay, which means that Japan's role as a buyer of our raw materials will lessen in the future because we will necessarily be selling more of our raw materials. I do not know about energy because a lot of these countries have their own energy supplies. But we will be shifting—as we already have. The development of the steel industry in Korea, for example, and Taiwan, et cetera—that has taken our exports as well.

That does not necessarily mean we will be exporting less to Japan. It may just mean that we are exporting more of these goods anyway and the Japanese share is smaller than before. How much we export to Japan depends on their domestic economy and their use of things like steel, plus the diversification of energy supply in Japan.

**CHAIR**—I detected in one of your comments—and I do not know whether or not it was a correct interpretation on my part—that small business in Japan had been very resistant to change within the Japanese economy. With the imperative of deregulation, has small business been pushed to one side within the Japanese economy? It seems that the reverse drive is within Australia, that we are trying to promote and uplift small business as opposed to what might seem to be taking place within the Japanese economy. It seems that what is being said is that it is the small business area that, in the end, will generate much of the growth in our economy. I presume it would be fairly necessary to be the driving force in a regeneration of the Japanese economy.

**Mr Panagiotopoulos**—Yes.

**CHAIR**—It seems to me that there is a conflict of interest—the Japanese small business people versus deregulation and, of course, the deregulation affecting the livelihood and the likelihood of the success of small business.

**Mr Panagiotopoulos**—I think the real issue is the composition of small business. I was talking specifically about the retail sector. So if you look at Australia and the similarity there, in the last 20 years we have seen the disappearance of the corner general goods shop. We have seen the appearance of big Woolies and big Coles—

**CHAIR**—It is said that we have an oligopoly in retail.

**Mr Panagiotopoulos**—It is just a more efficient structure. You just cannot compete in cost terms when you are a small shop owner. So we have changed that in Australia. In a sense you could say that we have put the small guy on the side. But all we have done has been to create a more cost efficient, cheaper way of selling goods. That is what happened in Japan, too. That is what is happening there.

**CHAIR**—So is it only the retail market? What about other markets?

**Mr Panagiotopoulos**—I am sure it is happening in other markets, too. It isn't that the small business person is being put aside; it is that the composition of what is small business will change. We are promoting small business, yes, but what kind of small business are we promoting? We are not asking people to open corner shops. We are saying, 'Get into the Internet; get into services provision; get into niche markets, et cetera.' Efficient and

competitive small business is what we are trying to promote. They have to do the same thing. You cannot keep out the world economy.

**CHAIR**—Yes, but this is where, surely, there is some real resistance within the Japanese economy. We have had evidence before this committee that there is real resistance within the Japanese economy to reform. That is because of entrenched interests over a long period of time within the political and bureaucratic system, and because people do not necessarily realise the imperative to reform. Not having an imperative to reform, therefore, reform is taking place at a very slow pace. Is that in effect a fair assessment of what you believe is happening within the Japanese economy?

**Mr Panagiotopoulos**—‘There is resistance to reform’ is a statement you can make about every economy, I think, whether you want to take the French economy, the American economy or the Australian economy. If you look at how long it took Australia to reform its economy, it took at least 15 years. During that time there was some good evidence of resisting that reform, if I remember. We have created a fairly successful reform program, which is evident in our rate of export growth, the composition of our export growth and the way the economy is behaving at the moment.

Japan, as well, has resistance to reform. Probably its biggest problem was that it was growing too successfully in the late 1980s, when I think they should have realised that the change that occurred to the value of the yen, which doubled in value within 18 months, meant that they were now living in a different world. They had not realised that, because they were successful. At the same time, they were building this enormous bubble of asset inflation. Now they have had to deal with a cyclical downturn, the deflation of assets and the negative value effect of income.

They have been reforming; they have been deregulating. The idea that there is resistance to reform should be balanced by the statement that there are just as many forces pushing for reform as there are forces resisting. I think the forces pushing for reform have been gaining the upper hand. It is obvious in the levels of new investment and the increase in imports. As I said, once the world market starts coming in, you cannot stop it. All you can do is become more competitive and more efficient, but it does not happen overnight. While it is happening, there are opportunities. A lot of foreign companies from North America and Europe are doing exactly that—they are going there and getting into business.

**CHAIR**—Is it a matter of companies from those countries being more aggressive than we are?

**Mr Panagiotopoulos**—Yes.

**CHAIR**—Are we too laid back in our approach?

**Mr Panagiotopoulos**—Yes. I had to do a research project last year for a company which has an office with two people in Tokyo and wants an office with 50 people in Tokyo. They produce software for the insurance industry. I was happy to take the work. I said, ‘I am glad to see it. This is terrific. You guys want to have a big office.’ I was glad to see an Australian company doing that. She said, ‘Our headquarters are in Carolina.’ I said, ‘Oh.’

She said, 'Strategy comes from there.' They use the Australian company to open their office in Tokyo because Australians 'do better business with the Japanese'.

That is not an isolated incident. So they are using the Australian side because the Australians have got a better relationship with Japan, but the strategy comes from the US. It is strange, isn't it? What was the word you used—ludicrous. I have heard of other situations like that, too. Why can't the strategy come from Australia? It is nice that the US is doing that, because it means that Australians are getting more involved in the Japanese market. So if some of those people move on from that company, they will have gained some experience from doing that. Maybe that will have flow-on effects. But why isn't the strategy coming from Australia?

**CHAIR**—Is this because we are not prepared to take the risk, the chance?

**Mr Panagiotopoulos**—We are doing it in other places. Why aren't we doing it in Japan? Is it so scary? I don't have an answer.

**CHAIR**—Is it as simple as a matter of language and culture or does it go beyond that?

**Mr Panagiotopoulos**—They speak English, sometimes better than we do.

**CHAIR**—That wouldn't be hard!

**Senator LIGHTFOOT**—Where is the antipathy, then?

**Mr Panagiotopoulos**—I don't know whether there is antipathy. I think it is this 'too hard' attitude.

**Senator LIGHTFOOT**—I should have asked: is there antipathy?

**Mr Panagiotopoulos**—From the Australian side, towards Japan?

**Senator LIGHTFOOT**—Yes.

**Mr Panagiotopoulos**—I don't know whether 'antipathy' is the right word—hesitancy, worry that Japan is too tough, too difficult. Maybe they are not informed enough about the changes.

**Senator LIGHTFOOT**—Australians or Japanese?

**Mr Panagiotopoulos**—Australians. A lot of people just do not know that the Japanese government will pay you to set up an office there. They have lots of subsidies now that they did not used to have.

**CHAIR**—I thank my colleague Senator Lightfoot for giving me a moment to flick through your submission, because I wanted to find a comment in your submission which I think goes to something that you said we should not underestimate. At page 12 you state:

The size, affluence, flexibility and dynamism of the US economy places it far in advance of any other export market in the region. The clarity, transparency and consistency of laws, the single language and "culture", all these put the US decades ahead of its nearest rival in size, China.

Where do we fit?

**Mr Panagiotopoulos**—In what sense?

**CHAIR**—We are looking at the clarity, transparency and consistency of laws, a single language and culture. If you look at some of the things we have seen in submissions before us, we are told that we are a reliable country; we have got an open democracy; we are reasonably free from violence and other things such as terrorism; our currency is relatively stable; we have a country which is asset rich in terms of its basic commodities. This should make us very much an attractive country to deal with, and this has been said to us. If we have got all of these qualities, why are we well behind the eight ball in promoting our trade, if the Japanese have this positive view of us that they have developed over a period of time? Is there something lacking in our culture, in our nature?

**Mr Panagiotopoulos**—That is my question.

**CHAIR**—I know; that is why I am asking you!

**Mr Panagiotopoulos**—We do not seem to have the same problem with other countries. That is why I am perplexed. We do not seem to have the same problem in attracting investment; we do not seem to have the same problem in increasing our exports of value added goods and services to other countries. We should not underestimate how successful we have been in attracting Japanese investment, though. Relatively speaking, we are a fairly small economy, yet since 1953, when the figures were first calculated, Australia has received about five per cent of total Japanese investment overseas, which is very good.

Sometimes we have a tendency to focus too much on the largest companies: why isn't Toshiba creating semi-conductors or television sets here? We may be more successful if we focus on smaller Japanese companies. To some extent we attracted, by Japanese standards, smaller companies in the early 1990s with some of the food makers—Shimadzu the medical equipment maker, people who make rice crackers; perhaps industries and players that we had not thought of before. Perhaps we have been thinking, 'Honda has got a factory in the US; why haven't they got a factory here?' Maybe we are thinking about it in the wrong terms.

**CHAIR**—I ask just one further question, because we are out of time. Your document gives a nice graph of Japanese employment trends. It refers to the unemployment rate in Japan. Do you have a figure as to what the real unemployment rate is? We did have a figure of about four per cent.

**Mr Panagiotopoulos**—I think the latest figure was 4.6 per cent.

**CHAIR**—We were told at a hearing of this inquiry in Perth that probably the real rate of unemployment in Japan is closer to about 10 per cent. The actual exposed figure is masked by a whole lot of other factors—those that are held in employment where the employment is

no longer productive but are kept on because of loyalty to the company and so on. Do you have any idea of what the real unemployment rate might be?

**Mr Panagiotopoulos**—I have read that, if we use a system similar to ours in calculating unemployment, it would be closer to eight per cent. It is a good thing to keep in mind, but it is not a really important issue in a sense—knowing what the real unemployment rate is versus the published unemployment rate.

**CHAIR**—It is just that that is going to affect the demand within the Japanese economy. One of the things that we have been presented with in evidence is that consumer confidence is way down because of the lack of security of employment within the economy. There are a number of other factors at play, but it seems to me that unemployment is likely to grow. In spite of the various packages that have been put in place to stimulate the Japanese economy, there has not been a great deal of success in the stimulation of consumer demand, as I understand it. That is why it is of interest that maybe somewhere down the track things are going to get worse.

**Mr Panagiotopoulos**—My view is a bit contrary to some of the views about Japanese fiscal expenditure in this decade. I feel that the Japanese have been listening to the wrong advice from the Americans. The Americans have consistently pushed the Japanese to use larger and larger fiscal stimulus packages—policies which they would not propose at home. This sort of thing plays into the hands of some of the vested interests in the Japanese economy. So large sections of those fiscal stimulus packages went into building bridges that nobody needs or highways that go nowhere—things like that.

So really a lot of the spending was inefficient, and they spent an enormous amount of money doing that. I think a lot of the money was wasted, and a lot of Japanese commentators would agree because they have a very large construction sector, but it is an inefficient sector. It is not a very good way to kick-start an economy.

However, by 1996 they still had the highest growth rate in the OECD, and I was one of those who predicted that the economy was recovering in 1996 because all the signs were there. Then they ruined their own recovery by increasing their consumption tax and negating the income tax rebate. Just after that happened, Yamaichi Securities fell and then the Hokkaido Takushoku Bank fell. If you see the graphs, that is exactly when consumer confidence plummeted, because people thought, ‘Gee, we’re in a lot of trouble now. We spent all this money. We now have a fiscal deficit approaching Italy’s in terms of GDP.’ When you say that to the Japanese, they hate it. They say, ‘Italy!’ Then they thought, ‘Our financial system is in huge trouble. The 100-year-old institution has disappeared. What are all those people going to do about jobs? What am I going to do? Is my money safe in the bank?’ So the whole thing accumulated on the Japanese consumer.

If the next six months proves to be the bottom of this and the Japanese economy starts recovering, I am pretty sure they will not do such things again. I do not think they will increase their consumption tax any further. I am hoping that the recovery, when it comes, will be a good one. I think the recovery will really start to happen when corporate profitability picks up, because that is really the key. Once corporate profits pick up, then they can start.

**CHAIR**—So will there be a role for domestic demand in the recovery of the economy?

**Mr Panagiotopoulos**—There has to be.

**CHAIR**—I understand. How significant, though? Corporate profits picking up will be good.

**Mr Panagiotopoulos**—Corporate profits, I think, will be the first real sign, because if corporates do not have profits they cannot hire new people; they are unable to. We have to wait at least for corporate profitability to pick up.

**CHAIR**—And you say that we should see better signs of that within the next six months.

**Mr Panagiotopoulos**—We should see something. We have a few positive signs now, but I would not want to be betting on it. A lot of people are betting at the moment on the Japanese stock market, but they are traders.

**CHAIR**—We will have to stop there. We have run a little over time. Thank you very much for your evidence, Mr Panagiotopoulos. We have welcomed your appearance before the committee today, and your evidence will be taken into consideration when the report is written.

**Mr Panagiotopoulos**—Thank you very much for the opportunity.

[10.51 a.m.]

**CALLAGHAN, David Neill, International Relations Manager, Qantas Airways**

**LOKE, Alan, Group General Manager, North Asia Sales, Qantas Airways**

**WALLACE, Damien Francis, Manager, Network Development, Qantas Airways**

**CHAIR**—Welcome. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. The committee has before it a written submission from Qantas. Are there any alterations or additions you would like to make to your submission at this stage?

**Mr Wallace**—I have got a few brief points I would like to make.

**CHAIR**—As an opening statement?

**Mr Wallace**—That is what I was proposing if that is acceptable to you.

**CHAIR**—Are there any alterations to the existing submission at this stage?

**Mr Wallace**—It is an opening statement which is really an update, a refresh, of the issues.

**CHAIR**—Very well, I now invite you to make a brief opening statement and then we will proceed to questions.

**Mr Wallace**—It is 10 months since Qantas prepared its written submission and there have been some developments which we would like to highlight. The first is the market decline. From Qantas's perspective the primary issue is that the market for air travel has continued to weaken in spite of the efforts to turn it around. Continued lack of profitability caused Qantas reluctantly to reduce services in November last year beyond the levels foreshadowed in our submission earlier in 1998. Qantas now operates 24 weekly services with its own aircraft—17 to Tokyo and seven to Nagoya—and we serve Osaka through the purchase of code share seats on Japan Airlines services to Brisbane.

**CHAIR**—So the JAL flight that landed in Brisbane as I was taking off this morning was likely to have your code share on it?

**Mr Wallace**—Yes. Qantas has not been alone in reducing its presence on the Japan-Australia air route. All Nippon Airlines has ceased all direct flights to Australia and maintains its presence in the market only through the purchase of code share seats on Ansett services between Australia and Osaka. Although Ansett and Japan Airlines have not reduced frequencies, their sale of code share seats to All Nippon and Qantas means that both airlines effectively have fewer overall seats to market in their own right.

For both Japanese and Australian airlines, there is now considerable unused capacity available under the aviation treaty between the two countries. Currently it is still difficult to obtain landing and takeoff slots at key Japanese airports, especially at Tokyo's Narita Airport, for new services. The opening of a second runway at Narita should alleviate this to some extent within the next year, although the competition for slots will remain intense.

Qantas continues to focus on its marketing efforts in Japan, and promotional expenditure over the last financial year reached \$A7 million. Together with funds from the ATC and other parties, promotional funds of \$14 million were spent to promote Australia as a destination in fiscal 1998, and a further \$A16 million will be spent in the current year to 30 June 1999.

In 1998, Qantas, in conjunction with Australian tourism interests, provided educational trips to Australia for over 1,000 Japanese travel agency staff and media representatives. Qantas will provide approximately 1,500 further educational visits for agents and media during calendar 1999. We believe that the provision of a hands-on look at the Australian product is a very valuable tool to put in the hands of those in a position to sway the consumer's choice of destination.

Qantas's optimistic outlook for a return to modest growth in 1999 will not be realised. The Japanese economy remains in recession, and our forecast is for further contraction of the travel market to Australia this year—probably over 10 per cent. We still anticipate a small growth next year when the Olympics will provide additional focus on Australia, and we look to continued modest growth thereafter.

We wish to emphasise that Qantas is confident of the longer term prospects of the Japanese market continuing to rate in the first rank of importance as a source of inbound tourists to Australia. Even with those reductions, the Japan market is still virtually the number one source of tourists. It is very close to the number from New Zealand, depending on the monthly variability.

The issue of air fares was not addressed in our formal submission but, because of the interest that Japanese fares continue to generate, there are a couple of points we would like to make. Firstly, fare levels from Japan to Australia have been in decline for some years. We have some data on average fares over time, which we would be happy to leave with the committee. Secondly, even with the reductions in capacity that have been implemented, Japan-Australia continues to be a loss-making route. In these circumstances, the potential for discounting is significantly reduced. I also have some updates of the tables in our submission, which I can provide to you.

**CHAIR**—I want to ask you about unused capacity. Does that apply to freight as well as to passengers? I read in your submission that, as a result of the growth in international travel, where you previously had aircraft which were totally dedicated to freight, there was now excess capacity in the passenger planes which was being taken up by freight. Has this now led to a reinstating of the freight flights, if I can call them that in very simple terms?

**Mr Callaghan**—The aircraft that Qantas has actually taken off the Japan route have all been 767s, which always had a very limited freight capability in any case. The aircraft that



remain on the route are the 747s, which do have the larger freight capacity. So there is still the capability of satisfying the market for freight. However, I should point out that there is much competition. We have got US carriers coming in here. Federal Express comes in five times a week with MD11s from the United States. They then fly over Australia to Subic Bay, which they use as a hub point for re-export to Asia for any loads that cannot be fitted on the passenger aircraft that we operate ourselves.

**Senator LIGHTFOOT**—For the record, Mr Callaghan, is that in the Philippines?

**Mr Callaghan**—Yes. To my knowledge there is absolutely no bottleneck or problems with export freight from Australia.

**CHAIR**—So, whilst we have seen a decline in the number of passengers coming our way, have we seen a growth in the amount of freight going out of Australia? Or has that growth remained static as well?

**Mr Callaghan**—I would have to take that one on notice. I really do not know the answer.

**CHAIR**—That is fine. I am just trying to build up a picture of what is happening and whether we are being affected both ways.

**Mr Callaghan**—To my knowledge, we are not constrained from a freight point of view.

**CHAIR**—I know that the number of passengers—from what I saw here—out of Australia is fairly limited, and it seems that it would be fair to say that most of them are business people who are travelling to Japan anyway, as Australians see Japan as being a high cost destination.

**Mr Callaghan**—That is true. The holiday element is quite small.

**CHAIR**—So it is not really a holiday destination. I was involved in another inquiry on another committee and we heard about the export of Australian fresh produce and, in particular, seafood. It was put to us on that particular inquiry that there was a growth there, albeit a small one. But that does not necessarily fill your cargo hulls, to say the least.

**Mr Callaghan**—That is true; and that is seasonal as well.

**Mr Wallace**—I would like to add to that. The service reductions that we have made have been the 767 services that operated to Fukuoka and to Sapporo and the services that we operated to Osaka. The services we have operated to Narita we have maintained, with one minor exception; we had one 763 a week that we also operated to Narita that has been withdrawn. So Narita is the main focus for both import and export freight, and the 747 capacity that Qantas operates to Narita has been maintained.

**CHAIR**—Unlike the rest of my colleagues, I am from the state of Queensland. Senator Lightfoot is from Western Australia, Senator Macdonald is from New South Wales and Senator Quirke is from South Australia. And, of course, being a Queenslander, I have a very

great interest in the number of tourists, as would my colleague Senator Macdonald from New South Wales, because New South Wales and Queensland are two of the primary destinations for Japanese coming to Australia. I note that, in spite of what seemed to be fairly active campaigns in terms of promotion within the Japanese market, we have still suffered this decline. Does that mean that our campaigns were not targeted, or is there a resistance within the Japanese market? Is it a matter of other currencies having been devalued against the yen, making them more attractive? What exactly is the problem that is confronting our tourist operators? I think you said that we spent \$14 million in one year and \$16 million in another. How much could we throw at the marketplace and still not make a dent? What is the blockage?

**Mr Loke**—I will attempt to answer that question. First of all, the market has actually dropped, in our opinion, by about eight per cent this year. We believe this is in line with the total drop ex-Japan to the rest of the world.

**CHAIR**—So we are not suffering more than any other nation, necessarily.

**Mr Loke**—I believe, too, that we did suffer a bit of a drop in market share. I think that is in our presentation.

**Mr Wallace**—There is a table in the original submission, which we have updated by adding another year. The question about our share in the Japan market is illustrated by that.

**Senator SANDY MACDONALD**—So 1998 saw a reduction in the number of passengers.

**Mr Wallace**—We think the number there is about minus 7.7, as shown in the updated table. That graph is showing that we did suffer a market share drop in the Japan market back in the mid-1990s. It then plateaued to an extent in 1997-98, and I guess the fight is now on to increase our market share in a falling market. There have been special initiatives taken by Qantas and ATC on that issue.

**Mr Loke**—I think the other point too is that there is very, very fierce destination competition. There is an issue that the currency in, particularly, Korea and Thailand has gone down very much against the yen, and those destinations became very, very attractive for the Japanese, particularly to do shopping.

**CHAIR**—To go and buy Japanese goods—

**Mr Loke**—It could be, actually.

**CHAIR**—being produced in Thailand.

**Mr Loke**—Yes. So I think there are some very, very clear reasons for which we are having a less than one per cent drop in market share in this case. That currency effect has a big bearing on the choice of destination and on the competitiveness of the destinations.

**CHAIR**—So the prime attraction of Australia—whether it be Sydney, the Red Centre, the Gold Coast or the Barrier Reef—whatever it might be, is not holding people's attention. They are very much swayed by what they see as being value for money in going to Korea.

**Mr Loke**—It is the opportunity to buy things.

**CHAIR**—I noticed that in your submission you mentioned that places like Guam and Hawaii were the real attraction from, I think, the late 1970s to the mid-1980s. If it is all currency dominated, how long do you think we are going to be in the lull that we are in?

**Mr Loke**—I do not think I know the answer to that. I think the Japanese market has almost bottomed out, and this year, maybe in 12 months, it might start to pick up again.

**Mr Callaghan**—Australia is fortunate that it has got the Olympic Games next year, which is really going to put a distinct focus on Australia. And, even if economic conditions have not improved markedly, that is going to help the tourism push to Australia in the year 2000.

**CHAIR**—If we look at the submission from the Department of Foreign Affairs and Trade—our department—they say, 'Consumer confidence in Japan is low,' 'Business confidence in Japan is low,' 'The financial sectors' bad loans are the most serious single impediment to sustained economic growth,' 'The Nikkei remains weak,' 'The yen remains weak,' and so on. It is not a very bright picture that they paint. And, of course, I understand the difficulties in attracting within that marketplace, given the lack of consumer confidence and the uncertainty that exists in people's minds.

I would imagine that an overseas holiday would be considered a luxury rather than a basic necessity. Therefore, I am just wondering, putting the currency issue aside, whether the promotional activity is the way to go to redress the falling rate of Japanese into Australia, given that we are going to have the Olympics next year. There are lots of places up and down the coast of Queensland, in particular, and on the Gold Coast—not that I go to the Gold Coast very often. The fact is that if and when you go there, and I have gone there in previous years, the prominent feature has been the number of Japanese tourists that have been there.

**Mr Wallace**—I do not think anybody could give an overview on that question. There is that very pessimistic perspective on it but, even within that market, there are elements of the market where we have had growth and there is such rapid change we have been looking at the market month by month, city pair by city pair. Even with that, in some months we are getting growth on previous years. Overall the market is still falling. We are trying to pick when that will level out. We are expecting it will level out in 1999. In certain city pairs we are finding that we are getting increases.

Also, there have been significant capacity reductions Australia-Japan—our service withdrawals, All Nippon's withdrawals—and that has happened with other countries to Japan also. It is a question of whether one should be pessimistic, and how pessimistic, about it, but at the same time the base is so high that even if there is zero growth Japan is still virtually the number one source of tourists to Australia, and that will continue. I do not think anybody

is predicting a massive reduction from that—we are certainly not. We are expecting that it will plateau and we will get back to small growth.

**CHAIR**—I have not got it with me but I did read earlier to the inquiry a headline from the *Courier-Mail*—not Australia's most reliable newspaper—painting a very dim view of the tourist industry. I do not think that some of the sentiments that are being expressed at home necessarily assist our image as well because, on questioning—and I have forgotten of whom we asked the question now—we were told that it was not as bad as it was being painted in the *Courier-Mail*. That leads me to ask: whilst you may have a promotional issue within Japan itself, what do you do on the home front? One resort might lose a number of tourists and therefore that is seized upon by the media very quickly and the whole thing is painted as being quite an unmitigated disaster following what is going on in the Japanese economy. Do you take actions internally within Australia to feed the right information out there?

**Mr Loke**—I will try to answer the question in two parts. The first part, the promotions that we are doing in Japan, as you know, we from Qantas have been trying very hard to make sure that we carry as many passengers into Australia as possible for our own sake. It is not easy just to go to the market and try to sell Australia as a whole now. We have gone down to specific market segments. We have gone down to identify those people who we think can still afford to come to Australia. For example, there is a group that we call the mature market, the silver market. We believe that there is scope that these people might still have money to travel and are not hit by employment and the worries of unemployment. Towards the end of last year and certainly for the rest of this year, this is the kind of market that we will go into and we will spend money trying to promote that market segment.

**CHAIR**—What do you do within the Australian marketplace to engender confidence in what you are doing as an airline, as our flag carrier? Whilst the picture may well be painted gloomily that things are bad in Japan, that they are disastrous, what do you do within our marketplace to reassure those people who are dependent on the trade that you generate, and which we are able to generate via our promotions within Japan, that all is not gloom and doom? We seem to seize upon gloom and doom very quickly in Australia.

**Mr Callaghan**—It is a very difficult question. You are really talking about the degree of satisfaction with Australia as a destination as perceived by the Japanese tourists who encourage more to come and for people to go back with a positive message about Australia.

**CHAIR**—I am talking about the Australian operators—the person who operates the hotel or motel on the Gold Coast where they get the Japanese tourists through. They read the *Courier-Mail* and they think the tourist market from Japan is shot to pieces. They see headlines such as your company saying, 'We are now down to 24 weekly services from 38.' How do you reassure the marketplace?

**Mr Loke**—I note that representatives from the ATC are present today. I believe they will be talking afterwards. We have a lot of meetings with industry people—indeed, we had one only a couple of days ago—to try to work together to see what we can do as a whole to put some confidence back into the industry. We have to talk to them, because as you know there is not a single operator who can pull the whole thing together. A lot of dialogue has taken place. There was a meeting two days ago and there is another one coming up on 23 April, to

which we have invited people from Japan to come and talk to people in the industry here, to see what we can do to help them.

**CHAIR**—The only other question I would like to raise is one that you postulated in your original submission without being terribly clear about the outcome. That was that the cost escalation at newly privatised Australian airports could also be an issue. Has that in effect been the case, given that this submission is now 12 months old?

**Mr Callaghan**—Not as yet. The costs are capped to a CPI minus X formula for the first three years of the privatised airports. It is the longer term that we are concerned about.

**CHAIR**—So you are concerned about the longer term and the impact that it might have on the landing charges that might apply and the impact on airfare structures?

**Mr Callaghan**—Indeed. I should point out that the most expensive airports in the world are in Japan and that our landing costs at Tokyo and Nagoya are about three or four times higher than they are in the most expensive airports in Australia. We have got a long way to go to catch up with the level of costs at Japanese airports.

**Senator SANDY MACDONALD**—Do we have one single bilateral aviation agreement with Japan?

**Mr Callaghan**—Yes, we do.

**Senator SANDY MACDONALD**—Do we have any problems with that?

**Mr Callaghan**—Not at all. It is one in which there is spare capacity available at the moment. The pace of expansion of capacity opportunities has been very much driven by Australia. The Japanese government has tended to take a fairly conservative line in terms of liberalising its aviation arrangements. Over the years of strongest growth, it was always Australia that took the initiative in organising further bilateral discussions to achieve greater access to the market. There has been no need for talks to do so for some time because the market has had these flat tendencies and recently the weakening. Certainly, Australia, from its government policy point of view, takes a more liberal outlook than the Japanese do on these matters.

**Senator SANDY MACDONALD**—In your submission you said that there had been problems between the United States and Japan with their bilateral aviation agreement, that these had been sorted out and there was a pent-up demand that is now being satisfied—the pent-up demand is no longer there. Can you comment on that?

**Mr Callaghan**—I think the American carriers who now have greater access to and through Japan took advantage of it. But I read in the last day or so that one of the major US carriers on the north Pacific route has just declared a loss in excess of \$100 million on its Pacific operations—and this is a carrier that operates only on the north Pacific. So I guess that gives some sort of indication that the commercial hardships are spread all around for airlines operating in these markets.

**Senator SANDY MACDONALD**—Some of those North American carriers have the capacity to fly on, do they?

**Mr Callaghan**—They do.

**Senator SANDY MACDONALD**—What is that called?

**Mr Callaghan**—It is called fifth freedom traffic rights.

**Senator SANDY MACDONALD**—Does Qantas have that?

**Mr Callaghan**—Not at all. We have limited fifth freedom rights that we could operate via an intermediate point to Tokyo, but the nature of the Japanese market is such that we want to carry them non-stop between Japan and Australia. We have no rights to operate beyond Japan at all.

**Senator SANDY MACDONALD**—And All Nippon does not fly any more: is that correct?

**Mr Callaghan**—That is correct.

**Senator SANDY MACDONALD**—So JAL is the only one—

**Mr Callaghan**—That is right.

**Senator SANDY MACDONALD**—And it does not have fifth freedom rights from Australia?

**Mr Callaghan**—No, it does not.

**Senator SANDY MACDONALD**—It does not fly to New Zealand?

**Mr Callaghan**—No.

**Senator SANDY MACDONALD**—I was listening to your comments about the value of the yen making it much more attractive for Japanese tourists to perhaps visit South Korea or Thailand but, in terms of the value of the yen vis-a-vis the Australian dollar and the US dollar, it is still a helluva lot cheaper for a Japanese tourist to come to Australia than it is to go to Hawaii: is that not so?

**Mr Loke**—I do not really know the relativity between the yen and US dollars—

**Senator SANDY MACDONALD**—It is so. Are you aware of whether that market, which has always been a traditional market for Japanese tourists—

**Mr Loke**—I am aware that there has been a huge drop in Japanese going to Honolulu.

**Senator SANDY MACDONALD**—On a more general note, if a market is unprofitable, as your submission says, what do you do about it? How long do you carry losses? How long do your shareholders allow you to carry losses?

**Mr Wallace**—There are steps of analysis that we go through. The first is to look at the market. We have been talking about the market as Japan as a whole, so we look at it in more detail and we break it up by the individual routes that are operating to Japan. We then look at the prospects about the economy overall and we then try to forecast what we think the profit potential would be into the future. Then we make judgments on the individual route basis. That is often the hardest thing for airlines to do—to withdraw from routes that they have put a lot of effort into developing. We bit that bullet last year when we withdrew our equipment from Osaka, from Fukuoka and Sapporo. The equipment we had on those routes were 767s—and their seat mile costs are considerably higher than those of 747s—so the benefit of that is that, looking at the Japanese route as a whole, we have lowered our costs. Now we really need the market to stabilise, which we are optimistic will happen, and we hope that with good marketing efforts we can target the right elements of the market and get the services back into profitability.

**Senator SANDY MACDONALD**—Not just in connection with the Japanese market but as a general comment, over the last year has the reduction in oil prices made a substantial difference to your profitability?

**Mr Wallace**—I cannot speak with any direct knowledge, but I would presume that to be the case.

**Mr Loke**—We did announce a big profit for the first six months of operation.

**Senator SANDY MACDONALD**—You said that that was because of oil prices.

**Mr Loke**—My own guess is that that contributed, but that is only my own guess.

**Mr Wallace**—After that series of questions, it is almost the same point that Senator Hogg made. We do have to keep in perspective that Japan is still the largest source of tourists to Australia. So, while there are difficulties in the market, there are still 750,000 coming per year.

**Senator SANDY MACDONALD**—There are 750,000 coming this way, and you can imagine the number of part-time jobs and unskilled jobs that they create in this country. It is very, very important to us, and we acknowledge that.

**CHAIR**—Professor Rix, in his recent book *The Australia-Japan political alignment: 1952 to the present*, pointed out that Qantas and JAL have been criticised for the high level of fares on the direct Australia-Japan route. He said that today there is a highly complex traffic and fare structure, given the rapid growth in tourism. Nevertheless, in your submission you said that Qantas has reduced fares to remain competitive. What has been the rationale for high fares, in his contention? Are they a disincentive to tourism despite the large number of Japanese tourists who have come to Australia? Could we have increased the market share,

which peaked at 5.2 per cent in 1993-94, had the fares been lower? That is a criticism that has been levelled at Qantas and JAL. What is your response to Professor Rix?

**Mr Wallace**—One of the tables that we have distributed is an index of average fares by month for the last three years. If we look at the bottom line—the 1998-99 line—it shows that, over the months October to January, the average fares were down in the range of 15 per cent to 20 per cent on the fares of the previous years. These are fares in Japanese yen. Assertions about what has happened in the past and the history of that make it very difficult to make judgments about whether it is exchange effects. But the macro of the route is that fares have dropped over successive years—15 per cent to 20 per cent down—and capacity has been reduced. I do not think there is any evidence of fares being a constraint on travel. In fact, it is the opposite at the moment—airlines are striving to promote travel.

**CHAIR**—So the long-term effect of the fares was that they were relatively high? Is that correct?

**Mr Wallace**—I am not in a position to make a judgment about whether they were relatively high, but that graph is saying that they are dropping.

**CHAIR**—It is just that in a period of boom we had them pitched too high. Was that a disincentive for people to travel in the longer term?

**Mr Wallace**—The presumption behind that question is that Qantas or JAL had the power to control the fares on that route. On a route where 90 per cent of the traffic is inbound from Japan, we have to look at the competitive position that is determining the fares on the route, and the competitive position is: what are the alternatives for the Japanese consumer and the wholesaler selling to them for holiday product that Australia is competing with? You need to address that question in that context, and I think when looked at that way the price competition on the route. You cannot look simply at the fares that are available on the Australia-Japan route; it is really what the conditions were on alternative routes as well.

**CHAIR**—In your submission you made a statement that air fares between Japan and Australia have been reduced to ensure that Australia remains competitive. In your opening statement, though, you said that losses on this route—the Australia to Japan route—do not allow now for discounting. Is that correct?

**Mr Wallace**—Yes, I did. I think I said the potential for discounting is significantly reduced. I am not saying that there is not continuing massive fare competition on the route.

**CHAIR**—Right. If there is discounting then, how do you remain viable if you are already operating fares that cause you to make a loss?

**Mr Callaghan**—One of the effects of reducing capacity is that our seat factors have improved. When you manage to get the equation in balance by keeping your fares competitive—taking some capacity off but still attracting the majority of the market you had before—you have higher loads, and that way the possibilities of big loss are reduced.



**CHAIR**—So it is more a matter of minimising your losses rather than necessarily coming out at a profit at this stage on those routes?

**Mr Callaghan**—Although it does not take much of an increase in seat factors to put you back into the black again.

**CHAIR**—One of the submissions that we have had put to us, whilst they will not appear before us, was from the Japanese Chamber of Commerce in Sydney. They suggested discounting internal air fares in Australia for overseas visitors as ‘the current internal fares are relatively expensive and act as a deterrent to tourism’. What is your response to that?

**Mr Loke**—All the published fares in Australia, if you travel internally, are expensive, but in Japan we do not charge the published fare. We do go in and discount the fare.

**CHAIR**—I should do all my bookings through Japan!

**Mr Loke**—Yes. Whenever we have a package with the wholesale operators, we negotiate with them for a whole itinerary of packaged fares. If you do what we call ‘pro-rating’ the fare, by pro-rating it to particular sectors, et cetera, you will find that our domestic fare is not high in the first place.

**CHAIR**—So it is a discounted fare in the first place?

**Mr Loke**—It is heavily discounted.

**CHAIR**—In the sense of what an Australian would pay, it could be termed a discounted fare?

**Mr Loke**—Yes. It has got to be part of an international itinerary.

**Mr Wallace**—I guess the point we are making is that it would be misleading to make the comparison with the normal on-demand full economy for business class fares on the Australian domestic sector. Similar discount fares are available to Australian consumers who are travelling for travel purposes and are prepared to buy the advance purchase. It is that kind of discount concept which is available in the Japanese market as well.

**Senator LIGHTFOOT**—With respect to the recent announcement by Singapore Airlines and their interest in Ansett—and I assume that is going to be fully consummated—will that change the attitude of British Airways to their equity in Qantas?

**Mr Wallace**—I have not seen any statement or views from British Airways on that.

**Mr Callaghan**—At the moment, under the Qantas Sale Act any one international carrier is restricted to a 25 per cent maximum equity in Qantas. British Airways holds that now, so there would have to be a change of legislation to permit them to take any higher equity. But to my knowledge there has been no discussion about any greater share being taken by them.

**Senator LIGHTFOOT**—What about other equity interests that British Airways has in the region? Can you inform the committee of anything of that nature? We want to get a better picture of other carriers that are likely to become more of a competitor than is necessary to Qantas.

**Mr Wallace**—I am not aware that British Airways has got equity in any other airline in the Asian region. If the question is more about what the alliance arrangements are between airlines—

**Senator LIGHTFOOT**—Not so much the alliance, but equity. I understand the alliance is a bit different.

**Mr Wallace**—I raise that because the question for the airlines in developing their strategies becomes: what can they achieve through alliance arrangements with other airlines, and what are the airlines that they want, for strategic reasons, to take equity in?

**Senator LIGHTFOOT**—Yes. Is Qantas in effect at a disadvantage because of other alliances or equity arrangements with other carriers?

**Mr Callaghan**—We think we are in a pretty good position. The One World Alliance, of which we and British Airways are part, together with Cathay Pacific, American Airlines and Canadian Airlines, is a fairly strong alliance and a good opponent to the Star Alliance which Ansett has recently joined.

**Senator LIGHTFOOT**—So you do not see any disadvantage to Qantas—as a carrier into Australia and other areas of the globe—with alliances?

**Mr Callaghan**—It is going to make competition fiercer than ever. This is a commercial reality that we have to face and meet head-on, but it does not discourage us.

**Senator LIGHTFOOT**—What about the proposal regarding other carriers that fly into major cities and cross Australia to go outside Australia to ultimate destinations? If that is fully implemented, what is going to be the effect of, for instance, South African Airlines flying into Perth and picking up from interstate carriers coming in? Is that of some concern to Qantas?

**Mr Callaghan**—Yes. The granting of cabotage rights to foreign carriers is something that would be unique. It is something that has not been given away by any major countries which have large domestic airline industries. Certainly the Americans have not even thought about giving away cabotage rights to foreign carriers. It would be of concern to us because, if foreign carriers were given such rights, we believe they would come in and pick the eyes out of the best high volume routes, which would make our position more weak over the entire continent that we have to cover.

**Senator LIGHTFOOT**—Are the Japanese carriers likely to want something of that nature from the Australian government?

**Mr Callaghan**—I cannot answer that.

**Senator LIGHTFOOT**—That has not been mooted?

**Mr Callaghan**—It has not been mooted.

**Senator LIGHTFOOT**—Would it be detrimental to Qantas if that happened?

**Mr Wallace**—Since no country has granted cabotage to any foreign airline, I guess that when airlines put their requests on the table for the air service negotiations, people do not put it on the table because they do not expect they can trade it.

**Senator LIGHTFOOT**—I do not want to get too far away from our subject matter, but doesn't the new Euroland break that rule—the United States of Europe, if I could put it that way?

**Mr Wallace**—I suppose it has the potential to, but it has not at the moment. It is an issue of how rights are granted in the future. We hold fifth freedom rights within Europe, and I guess in the future the question would be: could they be deemed to be cabotage rights in the future and then taken off us? We would say, 'No, we have individual agreements with each of the European governments and we have traded rights of access to the Australian market in order to get those rights.' That is a treaty agreement, so we would not expect that they would come under threat.

**Senator LIGHTFOOT**—So governments would look at other options with respect to reducing the relatively high air mile costs for passengers coming from Perth to Sydney and vice versa? You would acknowledge that they are relatively high costs on an air mile basis?

**Mr Wallace**—On an air mile basis, within the domestic network, I think they are probably slightly lower. Longer distances are generally, on a seat mile basis, lower.

**Senator LIGHTFOOT**—No landing costs—

**Mr Wallace**—Yes. So they are slightly lower. I guess it is a question of the level of frequency that the market is able to support and the airlines hence have to offer that determines the overall level of the cost.

**Senator LIGHTFOOT**—Is it comparable with Los Angeles to New York?

**Mr Callaghan**—Different economies of scale, Senator.

**Senator LIGHTFOOT**—I was not talking about economies of scale. I was talking about the actual cost of it. It is a lot more, isn't it? The answer is yes, isn't it? It is a lot dearer to fly per kilometre or per mile from Perth to Sydney than it is to fly from Los Angeles to New York in a comparable aircraft.

**Mr Wallace**—I do not know. I have not seen the costs. There is a cost and price issue. It is very difficult to get the information to come to a clear view on those questions.

**Senator LIGHTFOOT**—Yes. Where do you see the expansion in the next fiscal year, 1999-2000? Is it going to be in Japan or did you say that there was a protraction there?

**Mr Wallace**—We are hoping for small growth in 1999-2000.

**Senator LIGHTFOOT**—What about the major centres in China—Shanghai, Beijing, et cetera? Is there more of a growth potential there?

**Mr Loke**—I think China depends a lot on what they call an ADS—approved destination status. Australia is now aiming to get that privilege and gain that ADS status. That will mean that, officially, the Chinese can come to Australia for holidays instead of having to dress it up under disguises like government visits and all that. The Australian government, I believe, is working on this.

**Mr Wallace**—I have in front of me some Australian Bureau of Statistics figures for China during 1998. The total market grew at 20 per cent. That is a fairly small base, but I would think that we would be expecting continual double digit growth rates for the next couple of years. With the Olympics, we are also expecting stimulation of the US market and European market.

**Senator LIGHTFOOT**—The Olympics are factored into the growth rate for 1999-2000?

**Mr Wallace**—Yes, when we are building our assumptions for that.

**Senator LIGHTFOOT**—That is, in effect, where the growth is coming from, I assume.

**Mr Wallace**—I think there has been growth, US and Europe—

**Senator LIGHTFOOT**—I meant for Japan.

**Mr Wallace**—No, I think our assumption is a plateauing of the economy. There are going to be bigger drivers than simply the Olympics out in the market driving the Japanese.

**Senator LIGHTFOOT**—In relation to the full seat arrangements of some of the carriers like Brunei and Malaysian, and Garuda to a lesser degree, what part does the government owned oil operations in those countries play in the acquisition of cheaper fuel than Qantas can get? Is that a significant cost item?

**Mr Loke**—From my own experience with those Asian carriers, no matter what prices we come up with they just come in to undercut us. We do not know where they get the cost reduction from, but it seems that they just do not have to do any pricing.

**Senator LIGHTFOOT**—But Malaysia, Brunei and Indonesia all have government owned oil fields and one assumes that they get cut-price aircraft fuel—cut-price in comparison to what you can get it for. Qantas does not own an oil field and the Australian government does not own oil fields. Is that a worrying aspect for your company with respect to being able to compete on a level playing field with Brunei, Malaysia and Indonesia? I am just using those three; there are probably others.

**Mr Loke**—It is. We try to counterbalance them with product and services. From past records, I think you would find that it would be very hard to compete with them on prices, so we want to compete on services and product.

**Senator LIGHTFOOT**—Is that something that contravenes any agreements with respect to world trade?

**Mr Callaghan**—You would never really know what the answer was in terms of whether there was discounted fuel available to them through government owned oil companies. This would be something that we really could not give you an answer on because I think it would be something that, if it did happen, would be hidden from sight.

**Senator LIGHTFOOT**—Yes. It is not sufficiently important enough for your company to make further inquiries or to try and ascertain whether in fact it is not subsidised fuel that is causing the quite drastic lowering of air fares by some of those carriers, if not all of them?

**Mr Wallace**—That may be an element in it. I have not heard it raised or internally raised as an issue. Whatever way government support is flowed to the airline—and it is not transparent to us how it is—we do question the economics of the behaviour of a number of airlines, and presume that it can only be some form of government tolerance or support for the debt levels they are running up.

**Senator LIGHTFOOT**—But it obviously does not concern you unduly?

**Mr Wallace**—On that specifically I would have to go back and talk to our fuel people and see what their view is. But I have not heard that issue raised.

**Senator LIGHTFOOT**—It is probably difficult for you to get a definitive answer if you do go back to your fuel people, as you say. But would you be kind enough to take that on notice—

**Mr Wallace**—Certainly.

**Senator LIGHTFOOT**—and see whether you cannot give the committee some better understanding of the fuel pricing arrangements with your competitors in Asia, so that we are able to see if that competitive edge that they obviously have is not due, at least in part, to their fuel pricing arrangements.

I have one more question, on CASA and the problems associated with that in recent times. Has there been any criticism of that with respect to the responsibilities that you have with international air regulations? And what is your collective opinion on the present running and structure of CASA?

**Mr Callaghan**—None of us are from an operation part of the company; we are from the commercial side. I do not think we are in a position to give you an answer on that because this is very much driven by operational considerations. To my knowledge, there has been no regulatory fallout with foreign governments over any of the CASA issues that have been

aired in the last six or 12 months. On how we view the whole thing, we are not the right people to answer that from Qantas's perspective.

**Senator LIGHTFOOT**—But you have given me an answer anyway, Mr Callaghan. That was a great non-answer. I thank you for it. Mr Wallace or Mr Loke, do you care to comment or add to what Mr Callaghan has said?

**Mr Wallace**—No, I do not think I able to.

**Mr Loke**—I cannot, I am sorry.

**Senator LIGHTFOOT**—Okay. Thank you, gentlemen.

**Senator SANDY MACDONALD**—'Qantas refuses to comment on CASA'!

**CHAIR**—I have one brief question before you leave, and I know we have run over time. It is in respect of the Japanese traveller repeat ratios. You might not necessarily be the group—it may well be the next group who come along—who could best answer this for us. While we have had a fairly constant marketplace out of Japan now for a fair while, I look at this table that you present and the first place to be mentioned is Sydney, ranked at 36 on the list of repeat travellers and the other Australian cities are in the 50-plus ranks. Given that your three major ports of call in Australia are Cairns, Brisbane and Sydney, does it loom as a concern for you as an airline that your share of the repeat market seems to be out of whack with your share of the marketplace? Is this a problem with Australian promotion? Is it a problem with the internals within Australia, that is, the way the Japanese people perceive the marketplace once they get here? Or is it a reflection of the changing marketplace within Japan itself?

**Mr Loke**—This topic is very dear to our hearts. It is of great concern to us.

**CHAIR**—I am glad I asked a question dear to your heart.

**Mr Loke**—If you look at the 751,000 people coming here, if you increase the ratio by 10 per cent you get another 75,000 people coming back. Indeed, this is the same subject that we brought up with the industry people in conjunction with the ATC.

**CHAIR**—They will undoubtedly comment once they get here.

**Mr Loke**—I do not know how much the ATC will comment but they are aware of this predicament that we have. We can think of one or two reasons but we really do not know 100 per cent what the actual reason is. We had a look at Paris, for example. They repeat there because it is fantastic for shopping. Korea: exactly the same reason. For Honolulu, which is the biggest for repeat business, we believe the big population of Japanese people there might have an indirect influence for them to go back again. We do not know the true reasons, but I think we must have a closer look at this to come up with solutions.

**CHAIR**—Who should come up with the research for it? Obviously there is a role for industry—

**Mr Loke**—The industry.

**CHAIR**—There is a role for government, I would assume.

**Mr Callaghan**—It is probably through the ATC.

**CHAIR**—Right.

**Mr Loke**—The question to ask is not difficult: what do we have to do to attract them to come back?

**Mr Wallace**—We do work together.

**CHAIR**—I am not suggesting you do not work together. Is there a specific project in place now to address this issue?

**Mr Wallace**—If you look at the data behind it, it really needs to be data gathered in Japan about other markets, our competitor markets, so we are going to be very much reliant on Japanese sources for that information. That is not something that Qantas on its own would be able to achieve. We would want to participate in that. That is an issue we would be discussing with the ATC.

**CHAIR**—In formulating its report, this committee will make recommendations. It may well be that the committee seizes upon that as an issue and makes a recommendation. Obviously, the government can accept, reject or do nothing with the recommendations we make in our report. Nonetheless, it seems to be an area which could warrant some interest from this committee in the drafting of its report.

**Mr Loke**—We appreciate that. It is very true.

**CHAIR**—We have gone over time. I am conscious of the fact that we have got other witnesses from the Australian Tourist Commission coming behind you. Thank you very much for your cooperation. It has been very good evidence that you have given to us. We will weigh that up in the drafting of the report and you can look forward with interest to that report towards the latter part of this year. Thank you very much.

[Midday]

**HUDSON, Ms Margaret, Manager Corporate Strategy, Australian Tourist Commission**

**LARCOS, Mr Andrew, Government Relations Officer, Australian Tourist Commission**

**CHAIR**—The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. You will not be required to comment on the reasons for certain policy decisions or the advice which you have tendered in the formulation of policy or to express a personal opinion on matters of policy. The committee has before it a written submission from the Australian Tourist Commission. Are there any alterations or additions you would like to make to your submission at this stage?

**Ms Hudson**—No, there are not.

**CHAIR**—For the purpose of obtaining an accurate record, would you remain behind at the end of the proceedings so the Hansard officer can check spelling and sources of information provided this morning. I now invite you to make a brief opening statement and then we will proceed to questions.

**Ms Hudson**—Thank you very much. Firstly, I would say that the ATC welcomes the opportunity to appear before the committee. I would like to make some brief comments and then we are very happy to follow up with any questions that you may have.

As you are probably aware, the Australian Tourist Commission is a federal government statutory authority tasked with marketing Australia internationally around the world. We receive both government and private sector funding to do so. In Japan, for your information, we have offices in both Tokyo and Osaka. The key marketing activities that we operate in the Japanese market include brand advertising, where we are on television. In this market we are very strongly focused on print and magazine advertising. This appeals to the Japanese because, in many cases, they have very long commute times. It is a key strategy to make sure that we are reaching them as many times as possible. In our overall campaign and message in the Japanese market, we also focus on the revitalising effects of a holiday to Australia. We focus very much on the benefits of travel to Australia in terms of returning very relaxed and refreshed from the Australian holiday experience.

Another key area of our activities which is relevant to mention is how we work with the industry and the trade both in Australia and in Japan. In Japan it is extremely important that we work with travel agents. We do that in a very simplistic sense at a low level by providing simple information about Australia as a destination and, in a more sophisticated way, by ensuring that they are aware of the range of product that exists within Australia and that that knowledge is up to date so they can offer the potential visitor to Australia a range of choices in what they will actually come here to see and do.

We also work with the Australian industry in a number of ways, particularly in keeping them informed and updated on market trends; where we see the key targets; where we see



demographic and economic changes in the market and what impact we think that will have in an overall sense on arrivals into Australia and, in a segment sense, on the types of product and services that the Australian industry is offering; and how we believe they are matched to the needs of the inbound Japanese traveller.

Turning to some facts and figures in this market: as I am sure you are aware, Japan is at this point in time, and has been for a number of years, Australia's largest single source of inbound visitors to Australia with the figure for 1998 in the 751,000 range. You would also be aware, and I was privy to this discussion in the previous evidence, that that was a decline in the order of seven per cent on arrivals from the year previous. However, I think it is very important that we keep that figure in context when we look at what happened in the overall outbound Japanese market in 1998. We saw that market decline by around about 5.9 per cent. So whilst there was a slight loss of market share I think we need to keep it in perspective that the overall market was in decline.

Regarding what we think will happen in the future, that is a very difficult area. The Japan Travel Bureau, JTB, is suggesting that in 1999 that outbound travel overall will be relatively flat with probably zero or 0.1 per cent growth from the 1998 figure. It is more optimistic for future years from then on.

In terms of arrivals into Australia in the future, you may be aware that the Tourism Forecasting Council is the government's official forecasting agency tasked with looking at what they think will happen in future in all markets including Japan. I understand their current forecasts for Japan and for all markets are under review. But, as their forecasts stand, in 1999 they are expecting about a one per cent increase. So I think we are seeing a fairly consistent pattern here in expecting that 1999 will be fairly flat and in the years beyond we are hoping for growth.

It is also important when we talk about the size of the recent market share loss to look very much at the underlying strength of Australia as a destination in the Japanese market. In our submission we detailed the popularity of Australia and we refer to the fact that Australia has for many years and, in the research conducted, continues to be the most preferred holiday destination for the Japanese. When our research asks for people to be realistic about where they are more likely to travel for their next destinations, again Australia continues to be very popular.

In relation to what we think will happen in the very short term, I have some figures in the last few days from our officers in Japan about the period of Golden Week, which is from 29 April to 5 May in Japan. It is basically a week or so when there are a number of public holidays falling within that period. It has traditionally allowed for outbound travel, given the range of holidays within that period. This year, the trade are reporting to us an eight per cent overall increase in advance bookings for this period. Very significantly, advance bookings to Australia for that period are coming in at the moment at an increase of the order of 23 per cent over the same period last year. So, whilst we are only talking about a short period, we believe that this is a positive sign of Australia's potential to increase its share of this market.

There are a couple of changes that we are picking up in the market—and I am aware that this is one of the key focuses of the committee. You may well have heard from other

submissions that, from a demographic perspective, research is showing that people in the 50-plus age category will very significantly increase in this market over the next few years so that, by the year 2001, 40 per cent of the Japanese population will in fact be over the age of 50. That obviously has consequences for our marketing and I am happy to elaborate on what impact that is having on our selection of segment in this country.

You are also obviously very aware of the changes in aviation we have seen in recent times where we have had a significant decrease in the total number of seats available on the route, with the particular ports of Sapporo and Fukuoka now coming off line in direct services to Australia. That is obviously an area of concern for us. We certainly understand the commercial imperatives of the airlines operating on those services and on others from Japan into Australia but, from our perspective, it is potentially damaging to our market. There will be no direct services and it is hard to try and attract visitors from those areas when there are no direct airline services.

Another change is in use of the Internet. We are very much seeing that all around the world the Internet is becoming a greater source of information for people, including people looking for travel options. In Japan the take-up rate may have been slower compared with a country like the US, but in the way we are marketing in this country we are seeing that there are increases and we believe that in the future the Japanese will embrace this technology even more so.

In conclusion, I will restate our belief in the long-term importance of the Japanese market as a very strong and very significant source of visitor arrivals into Australia. We believe that the underlying popularity of Australia as a destination will continue, and we are therefore very confident that in the longer term Japan will return to growth and continue its importance as a key source of arrivals into Australia. We are very happy to take any questions.

**Senator SANDY MACDONALD**—In the Qantas submission, one of the problems identified is Australia's visa requirements, including time delays in visa issue. Is Japan part of the ETA?

**Ms Hudson**—Any Japanese traveller can apply for an ETA, yes.

**Senator SANDY MACDONALD**—And why, if they can apply for an ETA, is there a problem?

**Ms Hudson**—I do not think we have put that in our submission and I would certainly not sit before you today and say that we were aware of visa issues out of Japan.

**Senator SANDY MACDONALD**—That might be communicated to Qantas, because that is part of their submission. You said in your opening comments that part of your advertising theme is that consumers will return from their Australian holiday experience very relaxed. Does that in fact happen?

**Ms Hudson**—I guess that is hard to answer in terms of interviewing individual Japanese visitors, but when we developed that campaign we very carefully researched the travel needs

of the Japanese visitor, and the travel needs that came out were very much to get away—‘Somewhere I can go to refresh and replenish’. Our campaign very much focused on that theme; it is a pity I cannot show it to you today.

**Senator SANDY MACDONALD**—Something else in the Qantas submission was that the repeat ratios were very low for Sydney compared with, say, Honolulu, Hong Kong, Seoul or Paris. I listened with interest to your comments because from what you said the desire to have a repeat visit is not borne out by your research on the basis that a lot of Japanese people say that they would like to come back but they do not in fact do so.

**Ms Hudson**—I think that of the two figures I was quoting before the first one referred to the research question: ‘What is your ideal destination if time and money were no problem?’ Australia ranks No. 1 in that. The second part of that was, ‘When you have to look at the realities of life’—as we all do, with time and money considerations—‘where would you be most likely to go?’ Australia is still No. 1 in that category. We often see that changes in many other countries around the world. So we may be up there as the aspirational dream destination, but the reality is that when people are asked where they really will go they do not say Australia. So in Japan that is actually quite strong—to be No. 1 in both rankings.

**Senator SANDY MACDONALD**—Have you advertised as a honeymoon destination?

**Ms Hudson**—Yes.

**Senator SANDY MACDONALD**—Do you think that has something to do with it?

**Ms Hudson**—Traditionally, when you look back to the seventies or eighties when Australia was developing as a key destination for the Japanese, the honeymoon sector was one of the strongest. Primarily, many Japanese go overseas for honeymoons, and we were able to target that very effectively. The competition between Australia and Hawaii in that market segment is extreme.

**Senator SANDY MACDONALD**—Does that attract a sector of the Japanese population that would not normally be likely to travel?

**Ms Hudson**—That is hard to answer. The likely age of the people in that category of honeymooner is in the 20s to 30s. That is actually one of the highest outbound segments of the market. So I think it is also quite a usual thing for those people to want to take their honeymoon overseas. One of the key segments we have developed, by building on the success of the honeymoon market, is the overseas wedding market. We are targeting the Japanese quite effectively to have weddings in Australia rather than just the honeymoon. The benefit of that quite obviously is that for the wedding you get more people—

**CHAIR**—You bring the family.

**Ms Hudson**—than you get with just the honeymoon couple. That has been a very significant segment development for us in the last few years.

**Senator SANDY MACDONALD**—The reason I asked you initially about whether the feeling was that the holiday experience had been met in terms of the advertising is that that is what it is all about, isn't it? The perception that the Japanese people have of Australia is absolutely vitally important to Australia's interests—for future tourism, for their perception of Australia's role in this region and for the furtherance of any sort of commercial links that we might have. So it is absolutely vital that your advertising which may say that Uncle Sam's toothpaste is good takes into account that Uncle Sam's toothpaste may not exist anymore because it was no good. If you advertise something as good, then the feeling people have is that their expectations have to be met. I wonder if you might consider following that up. Have you done that?

**Ms Hudson**—I will see if I can find a table here from the international visitors survey which actually asks questions about the satisfaction levels of tourists which might give you an idea of numbers for that. I will also comment on repeat visitation because I think that is an issue of relevance, too.

**Mr Larcos**—I might just explain, Senator, that the publication in which Margaret is trying to find some stats for you is the International Visitor Survey. That is a survey conducted regularly of all the people who have been here. Once they leave we survey them on where they have been in Australia, what sort of experiences they had here: was it shopping, did they go to national parks, what sort of things did they like and enjoy doing here? That then feeds back into the marketing strategies that we adopt internationally. With American visitors we might be aware that they enjoy visiting the Barossa Valley and Adelaide, for instance, so we work with our partners in the South Australian Tourist Commission to promote that in the North American market. In Japan, for instance, we are aware that a high priority for them is the shopping experience here in Sydney, and that has often been featured in some of the promotional activities that we do in Japan.

Some of the information that we get out of it as well tells us, for instance—and we mentioned this in our submission—that Japanese visitors tend to stick to Sydney, Cairns and the Gold Coast and their dispersal rate, as we call it, is not that strong, whereas European visitors are more likely to go Adelaide, Perth, Uluru or Kakadu.

**CHAIR**—That is because they travel in groups rather than as individuals.

**Mr Larcos**—Yes. That is one of the factors. The other factor is that the Japanese tend to take shorter holidays. So it would be a five- to seven-day trip to Australia whereas a European visitor from Germany might spend 21 days in Australia and that gives them a greater length of time in the country to experience other things that the country has to offer.

**Ms Hudson**—I can certainly give you some sort of a breakdown of what they actually do while they are here, which should be suggesting that they can actually do what we are telling them they can do before they get here. This is based, as Andrew said, on International Visitor Survey data. In 1997, 42 per cent of Japanese visitors who came to Australia did things like go to the beach, visit national parks and visit gardens. Visiting historic sites was also of great interest, with 34 per cent of all Japanese visitors in that year doing those sorts of activities. Visiting wildlife parks and zoos, at 49 per cent, was also a key thing that they did while they were here. So, to answer your question, I would say that there is strong

reason to say that the promises of Australia in terms of what they will do are being delivered.

I make some comments on the repeat visitation issue, which as I said was raised when you were hearing previous witnesses and is a very relevant one to talk about. From memory, the overall level of repeat visitation from Japan to Australia is about 23 or 24 per cent, meaning that a quarter of visitors from Japan to Australia have been here before. It is an issue that the ATC has dedicated a lot of time to investigating. We believe it is extremely important to give Japanese visitors a number of distinct reasons to want to return to Australia over and above the 'I had a good time here'. One part of that is making sure that they are aware of a range of opportunities and a range of destinations within this country.

As Andrew mentioned, the historic pattern when the market developed was very much focused on Sydney and the Gold Coast, and Cairns developed later. So you have a factor where the trade in the market are likely to want to keep delivering that type of product to the market. Where we have worked very hard in the market is to try to get new product and new experiences literally onto the shelf so that the Japanese consumer has more reasons to want to return.

**CHAIR**—Does that include ecotourism?

**Ms Hudson**—Yes. We are picking up that ecotourism is becoming of more interest in this market. Then, if it is a packaged visitor, it is a matter of looking at the type of product in that particular itinerary. From the comments I made earlier, the wildlife and wild park is a very strong factor. With a short period of time that may be a more likely and more deliverable eco-experience.

**CHAIR**—That is really 'go and cuddle a koala', is it not?

**Ms Hudson**—It may well be. But, again, bearing in mind the size of Japan and the fact that we have so much more space and greenness, we do believe that that is a factor when the Japanese come here. They are very keen for that type of experience.

I was just going to comment finally on our repeat strategy. We therefore very strongly developed the view that we needed to introduce new destinations to the Japanese market. So what we have in place at the moment is a strategy called 'mono destination marketing' where we are trying to introduce new destinations to the market. The most recent one was in April. Only a few weeks ago we launched major campaigns in association with the Western Australian Tourist Commission, introducing Perth and some of the Western Australian areas to the Japanese market. Previously they may have been an option in packages, but they were not being promoted strongly. So that is a particular area to address in the repeat travel.

Finally, this week—on Monday, in fact—the ATC held a Japan market meeting where our colleagues from Qantas who were at the table attended, as were representatives of other airlines serving the route, the key operators around the country. We were saying strongly that we want to hear from the industry what the key factors are, what they believe the issues are around repeat business. People have committed to come back to that table at the beginning of June so that we can further advance this issue of how we address the repeat business matter.

**Senator LIGHTFOOT**—Ms Hudson, you worked very closely with Qantas when it was a wholly owned government organisation. Do you still have that closeness with Qantas now that Qantas has been privatised?

**Ms Hudson**—We have a very close relationship with Qantas. Specifically with the Japan market, they have been a very strong partner both financially in their commitment to our marketing campaigns and in working with us on some of things I have just commented on such as trying to introduce new destinations to the market. I am not aware of any distinct difference since their circumstances have changed. It is a strong relationship.

**Senator LIGHTFOOT**—A year or so ago Qantas introduced a very successful advertising campaign that involved a lot of Australian children. It was successful. In fact, it would probably win some sort of award on the hit parade. It has become, if I can use the term, the Penfold's Grange of advertising, at least in English speaking countries. To your knowledge, has that been translated into other languages?

**Ms Hudson**—I am not aware of the detail behind that Qantas campaign. I am aware that it was run during the Superbowl in the US and how significant that was from a publicity point of view. I am not aware of the extent of the campaign in its reach into certain countries.

**Senator LIGHTFOOT**—In terms of its ability to affect Japanese tourists into Australia, do you think that gives a picture of Australia? It is an international picture, but it certainly gives some stills and movies of Australia.

**Ms Hudson**—What we find with many airlines is that they are concerned about marketing the airline rather than the country. That is obviously a unique factor where the Australian airlines were going to have more potential to work cooperatively, if you can get the point of difference I am making between an airline that will promote the fabulous seats and service it has but not the one country where it is from. On that level, yes. As I said, I am not aware of how widely that ad is showing, but certainly anything like that which is increasing the level of media exposure of Australia in a positive way will be very favourably looked at.

**Senator LIGHTFOOT**—What about the money that your organisation spends in Japan on promoting Australia? Has that had a steady or a dramatic increase over the years? Do you have a two-, three-, four- or five-year plan where you have static amounts to spend?

**Ms Hudson**—The allocation which we have devoted to the Japanese market, without having the figures in front of me, I would say has been fairly stable in the last few years.

**Senator LIGHTFOOT**—Stable in real terms?

**Ms Hudson**—In real terms, we have suffered with the changed relationship between the yen and the Australian dollar. It is an issue for us in all markets. That is a factor when we look at how we allocate our funds, and there are number of factors behind that. Obviously, what our money can actually buy in a particular market vis-a-vis the exchange rate is important. We do manage to lock in some of our funds quite a way in advance. That is

removed from my actual area of specialisation. We have certain strategies in that area. In Japan, one of our biggest financial factors is the cost of advertising on television. Japan is one of the most expensive markets in the world. We do, however, believe that—

**Senator LIGHTFOOT**—Do you use that medium?

**Ms Hudson**—Yes, we do use television. We have two bursts a year where we are on air, but the cost is prohibitive to be able to more than that.

**Senator LIGHTFOOT**—Is the money that you do spend on the television medium cost effective?

**Ms Hudson**—We believe it is cost effective. We were talking before about the importance of repeat visitation of market share and the high level of competition in the market. We believe that some television presence, to grab that attention at the high level, is certainly a key part of the strategy to make the Japanese potential visitor aware of Australia. What is very important is the follow-through at a number of other marketing levels below that and to have a consistency in your campaign so you have the same messages through a number of mediums.

**Senator LIGHTFOOT**—Apart from the feeling you get that it is working with the high cost television, is there any other manifestation that indicates it is working?

**Ms Hudson**—We have a number of mechanisms in place to try to manage and measure that. With regard to the figures I was referring to earlier in terms of the popularity of Australia—if you think back to the dream destination or the ideal destination figure I gave you—we have maintained that No. 1 position over, say, the last five or six years. We contract that over time and look at how that changes. That is a key piece of data that would suggest to us that our advertising and marketing efforts in this market are working.

**Senator LIGHTFOOT**—In terms of holiday destinations, there has been a cultural change in Japan. Has that been noticed in the commission over the years?

**Ms Hudson**—Could you tell me what you mean by cultural?

**Senator LIGHTFOOT**—There is an ageing population in Japan. It is probably more rapidly ageing than any other OECD country. As a result of that, there need to be tailor-made holiday destinations to suit these people. That is one example of it. Also, there has been an economic downturn in Japan, so the Japanese will now want more value for money. Have you adjusted for that? They are just two areas that I could mention.

**Ms Hudson**—I can comment on both of those. Yes, we have in both cases. First of all, the demographic change has had a significant impact. This is something we spend a lot of time analysing on our segment prioritisation.

**Senator LIGHTFOOT**—That is a nice phrase. What does that mean?

**Ms Hudson**—That means: who do we actually put most of our focus on? Quite simply, in the past the office ladies, the women in the 20- to 30-year-old category and a little bit younger in some cases, were our No. 1 segment in this market. They represented the largest number of Japanese as a whole group coming to Australia.

From the 1999-2000 financial year about to commence, there will be equal priority given between that particular part of the market and what we call the silvers or the mature age, which primarily means 50-plus. That is a key change of strategy for us. It is very important that in doing that—and we have been working towards this for about the last year—we make sure we have an appropriate range of strategies in place in terms of the product on the market to suit that different demographic, that the industry are geared up towards that and that we reach them in different ways.

**Senator LIGHTFOOT**—We have presented ourselves in Australia in a different way now that there have been these demographic changes—is that correct?

**Ms Hudson**—Certainly we will not, for instance, be reaching the older segment primarily through television. We will be looking at a more focused campaign through magazine advertising and reaching them through other methods. The other point about segment change related to economic change is that we are very much—and I mentioned the meeting we held this week—tasked with looking at what segments of the market are most price resistant; that is, which ones we think are more likely to come here given the economic circumstances of the time.

One of the other segments of the market that we have developed over the last few years is the school excursion market. We will be testing this, but we believe that that segment may be more recession proof. If a school has a program every year of that class going internationally for experience, that would seem to be quite stable at the moment and will continue. So we are making big efforts to attract that segment and have done so in the last few years.

Finally, that segment also has appeal in terms of its repeat potential. It is a long-term demographic cycle where, if students come here when they are 14 or 15 and they have a fabulous experience, they are likely to want to return for their honeymoon potentially or their wedding as they develop through the different segments. That is another factor in why we are very keen on that particular segment.

**Senator LIGHTFOOT**—What about the cultural change in terms of group travel? That still seems to be very apparent, but is that a factor or is that something that you have noted has changed? In other words, are there more individuals or couples or several couples travelling rather than the big groups of Japanese tourists?

**Ms Hudson**—We have noticed a significant change in that factor. When the market developed and the Japanese were not so experienced with international travel, it was an obvious factor that they would prefer to travel in groups. Over time, however, that has changed. For many of the people coming to Australia, this is not their first overseas trip; they have travelled elsewhere.



We have seen a significant change to the point that I think almost 50 per cent of the market is now what we would call totally group. Everything is done from go to whoa. With the other 50 per cent of the market there is some variation between an air fare and some parts of an itinerary planned in advance. I think, say, five years ago—and this is just off the top of my head—that would have been about a 70 per cent group. So we have seen a significant change.

**Senator LIGHTFOOT**—In terms of numbers and the silvers, as you call them, do you feel you are devoting enough of your collective attention to that group? Also, is the advertising dollar being directed enough towards that group?

**Ms Hudson**—At the moment, our figures suggest that about 35 per cent of Japanese arrivals into Australia are in the younger category of the experienced female travellers, the young office ladies, and about 23 per cent are in the silvers group. Our reason for changing strategy is the demographic change and what we can see happening in the market. So it is a matter of changing that strategy over time. As I mentioned earlier, from 1999-2000 we are giving those equal priority, so there will be a change internally in terms of the way we prioritise our marketing.

**Senator LIGHTFOOT**—Who are the biggest per capita spenders between those two discrete groups?

**Ms Hudson**—I do not have those figures off the top of my head, but I think we are very keen on the silvers and mature age because we believe that their expenditure, which is obviously very critical in terms of their yield to Australia, will be quite high. They are typically people who have more time and money. Again, we would be perhaps looking at the fact that, with that very short length of average stay of the Japanese, if we could get one or two nights extra on to those trips, that would obviously be a benefit in terms of the yield of that segment of the market.

**Senator LIGHTFOOT**—In terms of the worrying and, in some areas, distressing economic downturn in Japan that so affects Australia, particularly in tourism, is Australia still maintaining its market share of attracting Japanese nationals to our shores?

**Ms Hudson**—We look at the market share issue in a very detailed way by looking at the Japanese outbound figures, and Japan is a country with excellent outbound data. We look at it on a monthly basis. We look at the arrivals into Australia and the outbound figures out of Japan and we note the difference as a percentage. In 1997 each month it fluctuated, so some months we went up and some months we went down slightly. In the overall 1998 calendar year compared with 1997, we had a slight decrease. I think our market share in 1997 was 4.84 per cent and in 1998 it was 4.78 per cent. So the market share has gone down slightly. We think there are a few reasons for that and we are working very hard to address it. If you look at the overall economic situation, closer destinations were obviously going to be of great appeal.

**Senator LIGHTFOOT**—Which ones close to Japan?

**Ms Hudson**—Korea. There has always been very, very strong Korea-Japan travel. Thailand is another. We are aware that Indonesia through Bali was able to do some very good packaging and prices which we think attracted a segment of the market very strongly. Las Vegas last year also had a huge amount of promotion. Guam is also a key competitor.

**Senator LIGHTFOOT**—So is the United States the only OECD country that has had an increase?

**Ms Hudson**—In our actual submission there are some detailed figures relating to the change. I think they relate to 1997 in terms of the change in where the Japanese went in that year. That is in our submission.

**Senator LIGHTFOOT**—What about OECD countries that did go well?

**Ms Hudson**—Italy. The relationship between Japan and Italy has been quite interesting in the last few years for us to watch in terms of the fashionability factor. Italy has become very fashionable in Japan and has done quite well.

**Senator LIGHTFOOT**—Is that a worrying aspect—that there are other OECD countries that are increasing their market share at perhaps the expense of Australia?

**Ms Hudson**—As I said, we take the market share and the competitive situation very seriously. You need to be constantly monitoring what your competition is doing, so the popularity of Italy, yes, is a concern, and other countries as well. Our challenge is to make sure that we are positioning Australia appropriately. I think value is the key thing we are looking at at the moment—making sure the Japanese see that an Australian destination, an Australian holiday, offers the experiences that match what they are looking for in their holiday needs and that we are offering value in that time period.

**Mr Larcos**—Italy, for instance, is not a direct competitor to Australia, although it is in terms of time. South Africa would be a more classic example in terms of what it has to offer, in terms of tourism product. So we would see any increase in market share from South Africa to be a threat to us. At the moment, we do much better than South Africa does in the range of products that it offers. Italy offers a range of tourism product. We can compete with them in many ways, but it is a worry nonetheless.

**Senator LIGHTFOOT**—You say South Africa competes with Australia. Is that because of its antipodean nature? South Africa is about as far away in terms of its topography and demography as you could possibly get from Australia. So what is it? Is it because it has got a summer similar to ours?

**Mr Larcos**—When the Japanese are thinking of travelling at a particular time of year, Australia and South Africa share the same seasons. That is a key factor. If it happens to be winter in the Northern Hemisphere and you are looking for a summer destination, you think of Hawaii, you think of Guam, you think of Australia and you think of South Africa.

**Senator LIGHTFOOT**—Having picked up the fact that Japanese tourists go to the US because of the fashion—and other things too, of course, but you have mentioned fashion—do

you factor that into your advertising to try to recoup numbers and try to plagiarise what is attractive to Japanese tourists?

**Ms Hudson**—I would not say we would actually plagiarise, because what we are trying to do is promote the essential Australia and we believe that Australia has a number of unique attributes that position us well to attract the Japanese visitor.

**Senator LIGHTFOOT**—But how do we stop losing market share?

**Ms Hudson**—As I said, we are trying to address that in a number of ways by looking at widening the range of experiences that the Japanese are made aware of that are available in the market. That is working with the trade and also working on that promotional sense. Western Australia was added very recently and we are hoping that, as a relatively new destination that probably has not had a lot of promotion before in the market, that will revitalise things. If anyone knew what that fashionability factor was, they would be doing other things. But it is something that we constantly look at, what makes a destination fashionable and how Australia can make sure we are up there.

**Senator LIGHTFOOT**—I have one other set of questions. There is the phenomenon in North America and Europe of the cruise ship. There is a renaissance of the cruise ship there, and they are big cruise ships. Is that happening in Japan, in South-East Asia or in any part of Asia to an appreciable degree?

**Ms Hudson**—I am really not aware of any particular trends in terms of Japanese or Asian disposition towards cruise travel. I know that the US market is one that is very favourably disposed towards cruising. I am also aware that there has been an increase in the activity of cruising around Australia, which we certainly very much welcome. I think you would have to bear in mind the short stay nature of the Japanese visitor—

**Senator LIGHTFOOT**—And the distance from Japan.

**Ms Hudson**—Indeed. So I would suggest that, if they were to go cruising, you have got to look at that time factor. I do not think that would be the key attraction to come to Australia.

**Senator LIGHTFOOT**—I mention that because of the ageing population in Japan. They have got more time on their hands, and cruising is something that needs time. Is that something that you should give consideration to, the potential that Japan, Hong Kong, Taiwan and economically reformed South Korea could perhaps participate in, that we should be looking now to try and attract those potentially to cruise ships?

**Ms Hudson**—With people on the ground in these markets looking constantly at how the market is changing, I would hope they are looking at that, and we will certainly mention it to them.

**Senator LIGHTFOOT**—Excellent. That is all I have.

**CHAIR**—You talked in your submission and you told us earlier today about Australia being ranked first as a potential traveller market, Hawaii second and the USA third. Yet, looking at the results on page 2 of your submission, the mainland USA, which was ranked third, comes in at 2.19 million, Hawaii comes in second at 2.07 million and Australia comes way down the bottom at 0.813 million. Do we know the reason for that? If you could convert the potential traveller market into actuals, it would seem that we should be higher.

**Ms Hudson**—It is an issue that we have been looking at for a long, long time. There is an innate strength in that Japan-US situation where, for whatever reasons, and there are a lot, the US and Hawaii in combination are very attractive destinations for the Japanese. We think there are historic reasons for that. The influence of television, for instance, makes the US a key competitor for us all around the world.

**CHAIR**—Does that come out in research?

**Ms Hudson**—It does, and the US is in many ways idolised. People are growing up on television, and therefore it does its own marketing over years and years. If you were growing up in Japan, you might have seen a documentary on Australia, but you were not seeing Australian television day-in and day-out, as you were seeing American.

**CHAIR**—So Skippy the kangaroo did not have the impact that we thought?

**Ms Hudson**—It is a time thing. Hopefully it was there but it was not in terms of the overall saturation level, if you can see what I mean by that. That is very hard to compete against, and that is a fact that relates to our competitive situation with the US in many markets around the world—it is hard to compete against.

**CHAIR**—If I could take you back to the repeat travellers, I am curious about what I see as the four major sites of visit: Sydney and the Opera House—readily identifiable—the Gold Coast and beaches; Cairns and the reef; and probably Alice Springs and Uluru. Is it that the Japanese market has only a very narrow view? I understand from what you have said that you are trying to expand that view, but even those who have already visited have a very narrow view of where to go in Australia.

The other factor that operates against us is the tyranny of distance. I will never forget one day, when I was hiring a car in Brisbane to travel somewhere, some Japanese people rolled up and wanted to drive for the weekend out to Uluru and back. Someone had to explain to them the tyranny of distance. Is that another problem that we have still to overcome in terms of this market—to make them feel comfortable with the distances there are to travel within Australia to get to some very pristine places indeed?

**Ms Hudson**—I think distance certainly is a factor. I refer back to my comments about the campaign with Western Australia. It probably would have been very difficult to get a Sydney-Gold Coast-Western Australian itinerary that you could do in seven days and return relaxed and refreshed. So I think it is important that with our strategy we promote different destinations at different times, and in that sense we would hope we would get more Japanese going to Western Australia. As my colleague mentioned earlier, it is very important for us to have what we call dispersal—to have visitors going to different areas of Australia for the

economic benefits associated with that. We believe that promoting mono destinations is probably the key way of trying to achieve that, because it is beyond our power to double the length of stay of the Japanese visitor and hence enable them to go to more places.

**CHAIR**—I have a question about the importance of the Internet. Do you have a web site?

**Ms Hudson**—Yes, we do have a web site.

**CHAIR**—Do you know how many hits are made on the web site from Japanese sources? Is it integrated with the likes of the Qantas, JAL, JTB and other operators in that area?

**Ms Hudson**—We established our web site four or five years ago. We now have three web sites, but the key one of interest here is our consumer web site. We have the fabulous address of [www.Australia.com.au](http://www.Australia.com.au) and we have primarily developed that web site to provide motivational and informational needs to the visitor. So we motivate them, we take them through a range of attractive pictures, et cetera, and there is a range of information which you can work through to find out whether you want itinerary information or whether you want particular climate or visa information or whatever.

One of the key developments we have made with our web site in recent times is the development of gateways. We are developing—and I think we have launched for the Japanese market—a gateway, which means that, rather than just going on to the worldwide site, if you are accessing it through Japan, it will come up in Japanese language, and it will also come up with a match. I talked earlier about the importance of consistency—matching to our overall brand campaign in Japan the same types of messages—so that is very significant. In terms of the actual number of hits from Japan—

**Mr Larcos**—It is a good question, because we were looking that up just before we came down here. We wrote it down, but I do not have the piece of paper with me.

**CHAIR**—Just roughly.

**Mr Larcos**—It is several thousand hits a week. As a ratio, it is not as high as North America or Europe. That is primarily because the number of users in Japan is not as high as those two.

**Ms Hudson**—But you can see that it is significant.

**Mr Larcos**—The number of hits is significant, and all our sites are connected, so eventually you can get onto the Qantas site to get a look at schedules and so forth if you are thinking about flying down. So we are all connected. We have the hot links to those.

**CHAIR**—This is the last issue that I want to raise. I would imagine that something that weighs very heavily on the minds of people travelling is the issue of safety and security. Without being too overt about this, is this an issue that is tackled by your organisation in publicising the merits of travel to Australia?

**Ms Hudson**—You are correct when you say you cannot be too overt about it. Generally, we get feedback that Australia is perceived as a very safe destination to travel to. There was a comment earlier on about the schools segment developing, and that is one of the reasons we believe we have had success in that particular segment—because Australia is seen as being safe. In terms of how we address this issue, we have public relations activities such as stories placed in publications in Japan that talk about Australia as a destination and, within that context, talk about it being a relatively safe, clean and friendly—friendly is very important—destination.

**Mr Larcos**—Before we move on from there, I would like to table the publication mentioned in our submission, the Australian Tourist Commission's *Travellers' Guide*. We issue about 100,000 of these in-market, so that when a consumer rings up our telephone help line to say, 'I'm thinking about a holiday in Australia,' we will send them out this publication as well as a whole lot of other bits and pieces of information. The document—written in the Japanese language—goes through all the things a tourist can look forward to in Australia, including security and safety issues, shopping hours, and visa and customs requirements. The document gives you an idea of the sorts of things that we are doing in-market.

**CHAIR**—The committee accepts the document. Thank you, Mr Larcos and Ms Hudson.

**Proceedings suspended from 12.47 p.m. to 1.53 p.m.**

**PORTER, Mr Denis Noel, Executive Director, New South Wales Minerals Council**

**CHAIR**—I welcome to this hearing Mr Denis Porter, representing the New South Wales Minerals Council. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request.

The committee has before it a paper from you. For the purpose of obtaining an accurate record, would you remain behind at the end of the proceedings so that the Hansard officer can check spellings and sources of information provided this afternoon. I now invite you to make a brief opening statement, and then we will proceed to questions.

**Mr Porter**—Thank you, Mr Chairman. I apologise for not having been able to prepare a formal submission to this inquiry, but I have a paper that was given by my chairman just recently which might raise a few of the issues that are of interest to you. I will begin with a few comments on the impact of the situation in Japan on the Australian coal industry. Coal will be the focus of my appearance today. The major proportion of my membership in New South Wales is coal, and I have a little bit more knowledge of this area than of the rest of the minerals industry.

Coal exports are Australia's No. 1 commodity export, currently generating about \$9 billion per year in revenue. There are two types of coal exports—steaming coal, the coal that goes into power generation, and coking or metallurgical coal, which is the coal that largely goes into steel mills for steel production. On the steaming or thermal coal side, we see a continuing strong demand in that market from Japan. Last year Australian exports of steaming coal to Japan rose marginally—only about 1½ to two per cent—but nevertheless we did see growth despite the recession in that country.

On the other hand, we saw a reduction in demand from Japan for our coking coal exports. Another trend that we are seeing is that, because of changing technology and the drive to reduce costs, the steel mills in Japan and other countries are moving to reduce their reliance on the higher quality and higher value hard coking coals and to increase the proportion of the lower quality and lower value coals.

We are seeing, as we have for the last few years, a change—in fact you could call it a breakdown—in the pricing system for coal. This has not necessarily been caused by the current economic problems in Japan, but I think the breakdown has been exacerbated by those problems. The change in the pricing system and in the way of selling coal is particularly strong in the market for steaming coal.

We are seeing a trend for our customers to buy less on annual or multi-year contracts and more on a short-term basis—a spot or tender basis. If we go back a few years, the Japanese power utilities, for example, bought almost virtually nothing—maybe a few per cent of their requirements—on the spot or short-term market, so almost all of their requirements were on a long-term contract basis. We are now seeing significant purchases on a short-term basis of somewhere between 10 and 20 per cent of their requirements.

We are also seeing an increase in the downward pressure on prices. Coal, being a commodity, does tend to see lower prices over time. I think the pressures in Japan and in other countries like Korea are forcing prices down, perhaps a little bit faster than they might otherwise have been. Mr Chairman, they are just a few brief comments. I would be very pleased to talk about those aspects or any others that you want to raise.

**Senator QUIRKE**—Of the \$9 billion in coal that we sell each year overseas, can you tell us how much is to the Japanese?

**Mr Porter**—I will have to check the figures but it would be close to half. I suspect it is just a little under half of our total exports to Japan.

**Senator QUIRKE**—Are they still showing strong growth?

**Mr Porter**—No. The figures for calendar year 1998—these are volume figures; I cannot give you the actual dollar figures but I can supply you with those perhaps in writing—in tonnes are that our steaming coal exports to Japan went up by 1.5 per cent on the 1997 level. Our coking or metallurgical coal exports went down by 5.1 per cent.

**Senator QUIRKE**—What about other mineral products exported to Japan? Is there the same pattern? Is it still showing roughly about the same?

**Mr Porter**—I have not looked at the figures, so I am not sure about that. Of course Japan is a major customer for a whole range of our mineral commodities—metals and so on. I suspect that, because of the downturn, we would be seeing, for example, lower export volumes of iron ore. I think that would have to be the case, given the downturn in the steel industry.

**Senator QUIRKE**—I think that is right.

**Mr Porter**—But I have not been looking at all the figures recently, I am sorry.

**Senator QUIRKE**—But, at least in terms of power generation, there is still fairly solid demand for Australian products?

**Mr Porter**—Indeed; one of the pluses of what is happening at the moment is that, while we are seeing low prices for coal, the flip side of that is that coal is extremely competitive in the energy market. Coal competes in countries like Japan with gas, nuclear and so on. Because it is competitive, it has held or has even increased its share of the market.

**Senator QUIRKE**—Can you tell me how it works? Is it a single desk policy for coal in Australia or do the different companies sell on contract?

**Mr Porter**—No, the different companies are out there competing very vigorously between themselves and with their competitors in Indonesia, South Africa and the USA, depending on the type of coal. It is an extremely competitive market out there.

**Senator QUIRKE**—Even against other Australian suppliers?



**Mr Porter**—Indeed.

**Senator LIGHTFOOT**—Coal is of great benefit to Australia but is increasingly becoming, notwithstanding that immense benefit, something of a liability in terms of its perceived pollution. That must be a worry to your Minerals Council. How do you counter that perception, if you can?

**Mr Porter**—It is an extremely difficult one because coal, as you say, is perceived in a negative light in many areas. There is not much we can do about that perception in other countries, although the industry is interested in what is happening overseas. Within Australia we are not funded to the extent that we can have massive public campaigns and so on, but we are trying to do the right thing as an industry.

Coal has an environmental impact on the local areas around the mines—the local communities—right through to the burning of coal. In terms of the mining of coal and its impacts locally, the industry generally does a very good job. We have first-class technologies and expertise in land rehabilitation, and we are required by environmental policies in each state to look after the run-off from mines—water—and all those sorts of things. So that side of things is well handled.

Looking at CO<sub>2</sub> emissions and climate change, our impact on the CO<sub>2</sub> emissions from the combustion of coal can only be limited—it is the generators of power and the users of coal which have the ability to influence that. Nevertheless, the coal industry has a research program under which each of the producers pays a levy to a special company that we have and we fund a range of research under that program. One of the aspects we look at to determine priorities is the greenhouse area. We are funding research which has a greenhouse relationship. That research looks at things like the emissions of methane from mines—methane is quite a strong greenhouse gas and a lot is emitted from mines—and spontaneous combustion. When you have coal stockpiled in the open it can sometimes burn and give off carbon dioxide. Those two areas plus the actual use of energy on mine sites are all significant and the industry is trying to address them.

**Senator LIGHTFOOT**—In fact, it is the industry's policy to stockpile coal only as long as necessary to get on a boat because of its friability. It does break down, doesn't it?

**Mr Porter**—Depending on the type of coal.

**Senator LIGHTFOOT**—Yes, very much so. Hard coking coal is not so bad but the lesser the grade the more friable it becomes when it is exposed to air.

**Mr Porter**—The brown coals in Victoria are extremely liable to combust, but they are not an export coal. We are talking about the black coals here.

**Senator LIGHTFOOT**—I thought it appropriate that the convention on greenhouse gas emissions should have been held in Kyoto, but Japan is a signatory to that convention, isn't it?

**Mr Porter**—Yes, it is.

**Senator LIGHTFOOT**—Japan, in terms of its land mass, is one of the big emitters of CO<sub>2</sub> gases. Does that mean it will have to scale back if it is going to conform to the convention? Even if it takes up and buys tree plantations and other areas of land in Australia to try to contra some of that convention, does that mean it has to cut back on its use of coal as a generating medium for electricity and for metallurgical combustion?

**Mr Porter**—It is a complex question; let me try to answer it. The Japanese have a target, which I think is minus six per cent on the 1990 levels. MITI, the Japanese Ministry for International Trade and Industry, last year published some revised long-term energy forecasts—they came out early in the year. They are viewed with scepticism by Japanese industry, I must admit.

**Senator LIGHTFOOT**—The figures?

**Mr Porter**—Yes, the figures are. I guess the Japanese government people regard them as a planning target rather than something absolutely sacrosanct. The forecasts show coal demand roughly steady at what it is now, but they show a major lift in the generation of electricity from nuclear power. To meet that new nuclear capacity you would need to build about 20 new nuclear stations. I do not know anyone in Japan who really believes that is possible. There is tremendous resistance at the local level to nuclear power stations in Japan. We will see some increase in capacity, but nowhere near the extent required to meet those forecasts.

**Senator LIGHTFOOT**—Several nuclear power plants have been built.

**Mr Porter**—Yes, nuclear capacity is the largest source of electricity in Japan. They rely more on electricity from nuclear capacity than from coal or gas. It generates about 30 per cent of their power, but to increase nuclear generation substantially is going to be extremely difficult. I do not think it is possible to meet the targets that were published last year.

If the Japanese economy pulls out of its recession and we see a continuing growth in energy demand, how is the Japanese economy going to meet that growth in energy if nuclear is not there? The only practical way to meet it will be with electricity through coal and natural gas. That is a reality. The Japanese themselves are wrestling with this problem at the moment.

**Senator LIGHTFOOT**—Is it fair to say that the bellwether of the Japanese economy is its consumption of coal—that the economy looks to be improving if the consumption of coal goes up and vice versa?

**Mr Porter**—That is probably the case for steaming coal. Our coking coal goes largely into the steel industry, which is very depressed. Our coking coal exporters will be watching the steel industry extremely closely. A lot of the steel in Japan goes into export production directly or into products that are exported, so there are a few factors at work here. The two markets are moving in different ways. The steaming coal exporters from Australia are a little more relaxed at the moment than the coking coal exporters because we do not see any sign at the moment of the Japanese steel industry turning around.

**Senator LIGHTFOOT**—Your preoccupation—if I can use that term—is probably with coal rather than with other minerals or metals.

**Mr Porter**—Yes, the dominant proportion of our membership is coal producers. We do have a number of the major non-coal producers—gold, copper and so on. I also wear another hat as the joint executive director of the Australian Coal Association, which is simply a federation of coal interests in New South Wales and Queensland.

**Senator LIGHTFOOT**—Are you affiliated with the Minerals Council of Australia?

**Mr Porter**—We do have a formal link with them through the fact our chairman each year becomes part of their executive committee—their senior policy body—but we are separate organisations although we work very closely on various issues.

**Senator LIGHTFOOT**—The price of iron ore from Western Australia—Australia's only exporter of iron ore; in fact, one of the biggest in the world—retreated under the latest contracts by 11 per cent. That must have been a big disappointment to you as the CEO of the Minerals Council of New South Wales.

**Mr Porter**—It was; nevertheless, we saw even larger falls in the contract prices for coal—18 per cent for hard coking coal and about 13 per cent for steaming coal. Yes, it is disappointing but it is not surprising given the state of the Japanese steel industry—it is extremely depressed.

**Senator LIGHTFOOT**—Have you extrapolated figures indicating that your gross receipts would retreat from \$9 billion given the new prices?

**Mr Porter**—I have not done a calculation but I have seen references in the media that we might be looking at something like \$7.5 billion rather than \$9 billion, so it is a very significant drop.

**Senator LIGHTFOOT**—How does that extrapolate to unemployment? I apologise for making the question so complex. What retrenchments are Queensland and New South Wales looking at in the industry?

**Mr Porter**—We have had some very significant retrenchments, particularly in the year up to June 1998. For the two states combined, we lost about 4,500 jobs, which is getting up towards 20 per cent of the industry. We have continued to see some job losses since then, but nowhere near that scale. I think we will see some more job losses in the next 12 months or so but compared with that year they will be fairly modest.

**Senator LIGHTFOOT**—Isn't it in the long-term interest of your industry to discourage the use of lower grade coal because of, generally speaking, its high ash and sometimes high sulfur content; that that would be an adverse comment on the industry generally, which perhaps would lead to alternative fuel use because of the high increase in lower grade coal, both for coking purposes and for steaming purposes?

**Mr Porter**—Sorry, I am not quite sure of your question.

**Senator LIGHTFOOT**—You said there had been a replacement of some of the high grade coal with lower grade coal.

**Mr Porter**—In the coking coals? Yes.

**Senator LIGHTFOOT**—The coking coals would, I assume, be higher ash and perhaps even higher sulfur?

**Mr Porter**—Australian coals generally are fairly low in sulfur, so I do not think that is a real problem. I would have to check on the ash content. You are probably right in terms of some of the lower grade coals being higher in ash, but of course Australia tends to wash most of our coals before they are exported, and the primary purpose of washing is to reduce the ash content. It depends on the customer specifications, of course. We are here to sell the coals that the customers want. The customers are looking to reduce their raw material input costs. They are expanding the technology which can accommodate the lower quality coals, and our producers are responding to that.

**Senator LIGHTFOOT**—Do you think you can replace some of the lost market, given that Japan is well under its 100 million tonnes annually of steel production? That has been going on for some years now, but they are still the most efficient producers of steel in the world. Given their high labour costs, that can only be a credit to the Japanese industry. Do you think that Japan will ever get back to 100 million tonnes of steel production plus and, as a result, have a comparable amount of consumption of coke and coal imported again?

**Mr Porter**—Frankly, I do not know the answer to that question. I would like to think that the economy will recover and the steel industry will recover.

**Senator LIGHTFOOT**—Isn't it a fact that the smokestack industries have gone offshore to some degree and they are going to stay offshore?

**Mr Porter**—To some degree. The steel industry has, of course, not done that. The aluminium industry basically closed down in the 1980s because of energy costs, and we picked up a lot of the effect of that, which is very positive for Australia. With steel, I do not know. I think I detect a determination in Japan to maintain the steel industry at a strong level. Whether they will get back to the 100 million tonnes I really do not know. Chris Rawlings, who is appearing in Brisbane, may have a view on that. He will be much better informed on that side of things than me.

**Senator LIGHTFOOT**—Do you think that your market for export coal is in a slump now? We are highly competitive in terms of export. I think we are still the biggest exporters of coal in the world, particularly at the top end of the market.

**Mr Porter**—Yes, we are.

**Senator LIGHTFOOT**—I think something like 13 per cent of the world's exports still come from New South Wales—or is it less than that this year?

**Mr Porter**—In terms of our share of the world market, the traded market for coal, we are probably something like 30 per cent of the world market.

**Senator LIGHTFOOT**—Is that right? We are easily the biggest exporters of coal, in any case.

**Mr Porter**—Indeed.

**Senator LIGHTFOOT**—Do you think that your figures are suggesting you can replace some or all of that lost market to Japan with China—PRC?

**Mr Porter**—Not so much China. Last year we saw a substantial growth in exports to Korea. In fact, steaming coal exports to Korea in 1998 rose by 25 per cent. Again, that is probably indicative of a number of factors, including the fact that coal is the lowest cost energy source and the Koreans are even more desperate than the Japanese, probably, to reduce their costs and so on.

We are also seeing some growth in Australian coal exports into Europe, partly because of the fact that we are more competitive and partly because of the fact that shipping rates have been fairly attractive. So, yes, we are not totally reliant on Japan. Japan is still our major customer, and will probably remain so for the foreseeable future, but we do have growth in other Asian markets and some potential in Europe. So the situation is not gloomy.

**Senator LIGHTFOOT**—So overall, Mr Porter, what is your council's view of 1999-2000 with respect to production? Are you going to get back to the figures of 1997-1998?

**Mr Porter**—In terms of value, no, because we are seeing—

**Senator LIGHTFOOT**—What about tonnage?

**Mr Porter**—I would suspect this year, in the next 12 months, we would probably be about the same as last time, and we may even have a little bit of growth. We believe that the steaming coal market internationally will continue to grow. Coke and coal will not. New South Wales is not a major producer of the hard coking coals—Queensland is very strong there—except for our Wollongong area, our South Coast area, which is a hard coking coal producer. But in terms of volume most of our coals in New South Wales are steaming coals or the lower quality coking coals.

**Senator LIGHTFOOT**—As a result of that slight increase, do you have any new mines that your association is considering opening?

**Mr Porter**—We do not open mines; the members do. There is only one major mine under construction at the moment in New South Wales. There are a few others that are possibilities, and there are a couple of smaller ones which are being expanded. But we have one major mine in the upper Hunter Valley called Bengalla which is starting to come on stream. As the market situation becomes a bit clearer in the next 12 months we may see other decisions from other companies in New South Wales to develop their mines.

**Senator LIGHTFOOT**—What future is there in in situ recovery of gas? How does that look to your association?

**Mr Porter**—Currently we do not find that there is a great deal of the mine gas, the methane, captured and used in Australia. BHP and other companies on the South Coast fields here are capturing methane, generating electricity from it and feeding that electricity into the grid. One of the BHP mines in Queensland is capturing the methane and feeding it into one of the state gas pipelines. I think we will see more of that sort of thing in the future.

**Senator LIGHTFOOT**—So it is a growth industry?

**Mr Porter**—Possibly. It will depend on the economics. We have massive coal seam methane resources in Australia. It is a matter of the technology and the economics of extracting it. But I think we have to distinguish between the methane which is a waste product, if you like, of mining operations, and methane which is extracted from areas which have nothing to do with mining.

**Senator LIGHTFOOT**—Is it possible that the base load coal-fired power stations particularly will be phased out? And if they are going to be phased out, what would replace them in their ability to generate significant amounts of electricity at the right time?

**Mr Porter**—Unless the Australian government or the state governments do things that damage the industry, I cannot see the base load coal-fired stations being phased out. Black and brown coal provide about 80 per cent of our electricity in Australia. It is generally cheaper than gas. I think we will see a growth of gas-fired power stations, whether they are co-generation or otherwise. But we have a very significant competitive advantage from the coal industry in Australia in terms of both the exports of the coal and also the use for power which then underwrites industries like aluminium.

**Senator LIGHTFOOT**—And the obligations under the Kyoto conventions?

**Mr Porter**—We have to work our way through that.

**Senator LIGHTFOOT**—Can we work our way through it?

**Mr Porter**—It is going to be difficult.

**Senator LIGHTFOOT**—Is that a no?

**Mr Porter**—No, it is not a no; it is saying it is going to be difficult. We still do not know all the numbers. Of course we have a potential in Australia to offset some of the land use and forestry absorption capacity. Those numbers are still not clear. They are being worked all the time. So our target is plus-eight. If the land use and forestry side is significant, then our energy use in Australia should be able to go up by significantly more than the eight per cent.

**Senator LIGHTFOOT**—Do you see that the real growth industry is going to be timber plantation areas?

**Mr Porter**—We will probably get a kick-along from that, and I think that will be good. But Australia is going to need a lot more energy in the next decade or two. We are well placed to generate a lot more power for use in aluminium and minerals processing and all those sorts of things. I hope we can find the right sort of policy mix to allow us to move forward.

**Senator LIGHTFOOT**—Do you think it is to the detriment of Australia to have a significant amount of our resources—and I particularly speak of coal here but that is not the only resource that is owned from overseas—owned overseas? Do you think that overseas aspect of ownership of coal is detrimental to the price structure? I know some are owned of course in Australia but the RTZ ones are not now. Do you think that is to the detriment of Australia in striking a decent price?

**Mr Porter**—No, I think you have to look at the composition of the ownership firstly. The accusation generally tends to be that it is the Japanese customers who do the manipulation of the market. The Japanese customers—the steel mills and the power utilities—are not major investors in the industry. They have a certain share in the industry here, but the Americans, the British, other European countries, have a far more significant stake in the industry than the Japanese customers. The trading houses do have a certain stake in the industry, but I think we can be misled by the fact that there is a high proportion of overseas ownership in the coal industry and by then tying that to some sort of price manipulation.

**Senator LIGHTFOOT**—So it is not detrimental in any way to price negotiations by having some of the negotiations done by people who are not domiciled in Australia but who actually own the minerals?

**Mr Porter**—Generally, I would say no. One of the accusations by unions and others sometimes is that, by having a small equity share in a mine or mines in Australia, overseas interests gain knowledge of the cost structure.

**Senator LIGHTFOOT**—That is true, isn't it?

**Mr Porter**—Yes, but you can also gain that knowledge in other ways. It is a pretty transparent industry. You can go to very specialised consultants and, for a very modest fee, buy the sort of information that is required. I do not think it gives you any great advantage in that respect.

**Senator LIGHTFOOT**—Thanks, Mr Porter. It has been very interesting to talk to you.

**CHAIR**—I want to test a few things that have come our way in a submission that focused on the coal industry. It was a paper prepared by Dr Mark Beeson. I do not know whether you are familiar with his work.

**Mr Porter**—No, I do not know his work.

**CHAIR**—It was a paper prepared back in 1995 headed 'Australia-Japan trade relations: the coal industry as a case in point'. I do not know the exact month in 1995 when it was

produced; spring was the time of publication. I will quote a couple of points on which I would like you to comment, bearing in mind that it is now some four years old:

Contrary to what orthodox economics might predict, price has not been the sole or even the most important influence on buyer preferences.

Is that relatively true—that it is not solely price, but that there are other important influences?

**Mr Porter**—I think that is true—again, without knowing the full context. I am trying to put myself in the place of the customers here, but price is critical in any commodity. You have also got a lot of quality characteristics in the coal industry. Coal is not just a homogenous commodity. There are various grades of steaming coal and coking coal. So you have got price, you have got quality, you have got reliability. You have also got, from the Japanese side of things, a concern about the dominance of Australia as a supplier. Hence they look not to have, from their perspective, too great a reliance on Australia. Nevertheless, they rely on us for about 60 per cent of their steaming coal and about 40 or 50 per cent of their coking coals. But that is a consideration in their minds.

**CHAIR**—In the same article, not very far on from what I have just quoted, he goes on to say:

A government-sponsored research body in Japan has developed a specific long-term strategy for the Japanese government and buyers, designed to encourage over-supply and price suppression. . .

He quotes as his source Marris and McGregor 1994. Is that in effect what did happen, or has happened? I know that you have not got the benefit of the full context—

**Mr Porter**—Certainly, one of the Japanese organisations published something in the mid-1990s which you could interpret along those lines, but I think it is stretching the point. Back in 1994, I think, there was an independent review of the coal industry by Ray Taylor. Ray was previously a senior government man.

**CHAIR**—That is what prompted this article.

**Mr Porter**—Taylor looked at all of these issues. I suppose he was responding to the sorts of submissions from unions and others which said, ‘We need to form a collective approach to coal marketing and pricing in Australia.’ His response, having looked at all the evidence and submissions from us and other people, was to say that it was a highly dangerous approach and not appropriate. It is a very complex area and there are often no simple answers to the sorts of issues you are raising.

**CHAIR**—I am not trying to lead you down the garden path, but I will read the last quote. I am really looking for a comment from you. It does go to the fact that Australians lack the skill, the capacity and the ability to negotiate properly. The paragraph reads:

Not only do the representatives of Japanese buyers have superior negotiating tactics and skills, but the *sogo shosha* are often able to provide inside knowledge about the profitability of mines via their strategic investments in Australia.



You have already answered that. It goes on:

Clearly, 'Australian' companies are at a major disadvantage when conducting price negotiations, a situation that is exacerbated by a general lack of unity occasioned by the tactics they adopt.

Would you like to comment?

**Mr Porter**—The Japanese are skilled negotiators. They have probably been at it for a lot longer than we have. Whether they are more competent than we are is hard to say, but we have some very experienced people in the minerals industry and the coal industry in Australia. Again, there are no simple answers to these things, but can I—

**CHAIR**—I think it was one of my colleagues, Senator Quirke, who asked: is there a single desk? You said no. Does the lack of unity weaken our position given the pressures that are coming out of Japan currently? Are they trying to pick us off one by one in their coal negotiations—that is, I do the deal with you and then I go to you and say I have just done the deal and you have to cop their deal?

**Mr Porter**—I am sure the current system suits Japan. You may say there are failings in it but then you would have to say: what would happen if Australia formed a single desk? Let us suppose we had a coal marketing authority, which has been the lifelong wish of many of the members of the CFMEU and some of those on the Labor side of politics. You have only to look at what happened with the Australian wool industry in the 1980s, when we were involved in a much bigger proportion of the market there with wool than we are with coal. Or you can look at what happened in the oil industries in the 1970s, when the OPEC nations forced up the price of oil. What did that do? One of the effects was to produce a very significant international trade in steaming coal, and Australia is a major beneficiary of that.

I think there is enough evidence around to show you that trying to form seller cartels is a very dangerous way to go. But if you look at that from the customer's side—Japan or Korea or any of the other major customers—if they saw their major coal supplier, Australia, trying to form a collective approach, that would have a major impact on the way they went about their business, firstly in terms of where they bought their coal and secondly in terms of what share coal would get in Japan as opposed to gas, nuclear and so on.

You could argue that you could force up the price of coal through a collective approach for a year or two. But in the long term the effect would be that the customers would move away from Australian coal to other suppliers of coal or to other energy forms. I think that was the sort of reasoning that Ray Taylor went through as well when he said in 1995 that it is a dangerous approach and not appropriate.

**CHAIR**—What about the move by Japan, as Senator Lightfoot pointed out, to move some of their industries offshore? Is that seeing a reassessment by your organisation and others that you are associated with of the marketing of coal to Japan, trying to follow the trail to where they are now in re-establishing their offshore sites? Or are we looking at a fairly stable market in Japan regardless of what might happen?

**Mr Porter**—I do not think anyone knows. Japan is in a state of transition. It is a very confused country in many ways. I am not an expert on Japan but I get the impression that it is confused and it is not quite sure what the future holds. The Japanese are not used to recession. It has only been in the last few years. They were an incredibly successful economy and only now are they trying to confront the problem. I do not know what the future holds in Japan. I suspect that we will see some recovery, but we will not get back to the days when you had growth of between five and 10 per cent a year. I think we will see very modest growth.

Other countries are growing fast. I think we will see Korea turn around very quickly. I would like to think that we will see some of the other Asian economies like Thailand also turn around. There are opportunities in those countries—plus India and others—for our mineral, including our coal, exporters. Our companies are out there all the time trying to unearth those opportunities and follow them through.

**CHAIR**—On the issue of deregulation, it said that there is a real need for deregulation to take place in the Japanese market. Is this true for coal as well, or are there non-tariff barriers that make—

**Mr Porter**—No, I do not think we have a problem with barriers in that respect. The Japanese coal industry now is very small. I think there are two mines left and probably in a few years time we might not have any mines. So Japan is desperate to get energy. It requires energy imports and it is not going to be silly enough to put up barriers. There are other threats to Australia in terms of whether the Japanese might encourage natural gas from the Russian island of Sakhalin to the north of Japan—and that is something we are going to have to watch. But generally we do not see those tariff or non-tariff barriers in Japan.

Looking at the power industry in Japan and an area of potential change in the future, some could argue, ‘Why continue with the current structure where each of the major power utilities has a certain area in which it sells power?’ Unlike our national market here, which is opening up and doing away with state boundaries, the Japanese do not have that system. They are reforming their power industry in a different way, by requiring the utilities to put out bids for new capacity to tender. So it is quite a different way of going about things. But generally I think the Japanese are going to have to confront major structural reforms in the economy and major changes in the way they do things if they are to see the economy growing substantially again.

**CHAIR**—So, as they shift from a manufacturing base to a service base, that should not necessarily detrimentally affect the export of Australian coal into the Japanese market.

**Mr Porter**—Probably not, particularly if countries like China and Korea are the ones that pick up the slack, because we are well placed to service those. China, of course, has got a major coal industry—a huge coal industry. Its exports currently are quite modest, but if it ever gets its act together in terms of its infrastructure and so on, it will be a much bigger force. So we have to watch China. But in general, although the Japanese transfer in industrial capacity overseas might be a concern, it does not necessarily mean we will lose out.

**Senator LIGHTFOOT**—What are the relative sales of both types of coal to China, compared with Japan?

**Mr Porter**—China is only a very small importer of coal. I could not give you the figures—

**Senator LIGHTFOOT**—It has an enormous industry of its own.

**Mr Porter**—New South Wales and Queensland, combined, produce something in the order of 220 million tonnes of black coal a year. We export 160-odd million tonnes of that. The Chinese produce something in the order of 1.2 billion tonnes of coal.

**Senator LIGHTFOOT**—From which 800 million people derive their cooking and heating, which is a phenomenal figure. In those figures, it is worrying that over 10,000 people in the industry in China lose their lives.

**Mr Porter**—That is only in the sector where the statistics are collected.

**Senator LIGHTFOOT**—That is right, it is only that sector. It is phenomenal. They would be better to buy Australian coal; I think that is the message.

**Mr Porter**—Indeed.

**CHAIR**—Are there any further questions?

**Senator LIGHTFOOT**—That is all. Thank you, Mr Chair.

**Mr Porter**—I will just leave you with a graph. I do not want to make this too complex, but perhaps I could explain it to you. This is called a cost curve, and it is prepared by the consultants Barlow Jonker, who have some very good knowledge about the coal industry. It shows the cost structure of mines in countries which are major suppliers of steaming coal into the North Asian market; so we are talking mainly of Australia, Indonesia and South Africa. Each of the dots shows that you have a mine which produces a certain tonnage and it costs a certain amount, and we have different years, projected out to 2005.

Once you aggregate those, you can see that, taking \$US40 as the landed cost of coal into the North Asian markets, in 1985 about 50 million tonnes could be delivered into those markets. In 1998 we have about 150 million tonnes of coal at that same price. By 2005, in excess of 200 million tonnes of coal can be produced at that cost and delivered. This is the reality we are facing with an industry like coal, where you are seeing a very substantial shift down in costs. So it is too easy to focus on price manipulation by buyers and all that sort of thing.

**Senator LIGHTFOOT**—Are any of those prices indexed?

**Mr Porter**—No, they are not indexed, they are just prices of the day. We can overly focus on the structure of the industry—

**CHAIR**—What is producing that: efficiencies within the industry?

**Mr Porter**—In Australia, Indonesia and South Africa. It is efficiencies in the industry, it is lower transport costs—it is all sorts of things. Literally from the coalface—

**CHAIR**—Exchange rates?

**Mr Porter**—There could be some impact on exchange rates because this is in terms of US dollars, but the big impact is in simple efficiency within the whole coal chain. That is the reality that we are facing, that you have got a lot more coal able to be produced from new mines and existing mines at lower prices. Governments, of course, are reacting. You have seen the reaction in Queensland just in the last week to adjust their rail freight and royalty regime, because of the pressures on the industry. As I say, it is too easy to focus on the supposed manipulation of the market and should we collectively get together and try and counteract this, and not recognise what is happening in terms of costs structures.

**CHAIR**—So this, in effect, is what is driving the Japanese buyers. They know what is happening in terms of the efficiencies within the industry but they are not going to let the profits remain in the hands of the producers. I mean the additional profits that would be made from the gain in the efficiencies. They want a share in the efficiency.

**Mr Porter**—The profits might not be in the hands of the producers, of course. The work force in coal is extremely well paid and governments generally—

**CHAIR**—I accept that. I am trying to use that in the broadest sense, that they want a share of the profit of production.

**Mr Porter**—Indeed.

**CHAIR**—That is a very simple way to explain it. Thank you very much for your evidence. Can we keep that document?

**Mr Porter**—Yes. It is prepared by Barlow Jonker Pty Ltd, who are Sydney based consultants.

**CHAIR**—The page is headed ‘C&F cash cost thermal coal world supply to North Asia at 6,400 kcals/kg gar period 1985 to 2005’.

**Mr Porter**—That is just standardising the energy content of the coal.

**CHAIR**—Thank you.

[2.39 p.m.]

**TABE, Mr Yoshihiro, Director, Japan Local Government Centre, Council of Local Authorities for International Relations**

**CHAIR**—Welcome, Mr Tabe. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. For the purpose of obtaining an accurate record, please remain behind at the end of the proceedings so that the Hansard officer can check spelling and sources of information provided this afternoon. I now invite you to make a brief opening statement, and then we will proceed to questions.

**Mr Tabe**—It is my great pleasure to appear at this hearing and to speak on one aspect of Australia-Japan relationships. In my statement today, I would like to draw your attention to the increasingly dynamic relationships which have developed at the grassroots level between our two countries over the last decade and which have contributed significantly to bolstering bilateral relations between Australia and Japan.

Before I start, let me take a few moments to introduce the Japan Local Government Centre, which I represent. Our centre opened in October 1994 as one of seven overseas offices of CLAIR, the Council of Local Authorities for International Relations. CLAIR is a semigovernment organisation which was established in Tokyo jointly by Japanese prefectures and municipalities to help them facilitate various international programs. The Japanese Ministry of Home Affairs authorised CLAIR's establishment and continues to support CLAIR and its international network of offices in New York, London, Paris, Singapore, Seoul, Beijing and Sydney. As the Oceania office, our centre liaises between regional and local authorities in Australia, New Zealand and Japan.

You may wonder why Japanese regional and local governments are so enthusiastic about international relationships that they go as far as setting up a joint support organisation, namely CLAIR, for such activities. Therefore, in my statement I will firstly explain why international activities are so dynamic among Japanese local communities. Let me start by giving you a general picture of Japanese local communities' international activities. Among the 3,200 municipalities in Japan, 832, or about 25 per cent, have one or more international links at present. The United States, China and Australia, in that order, are the countries in which Japan has established most of its grassroots links. Furthermore, according to CLAIR's annual survey, Japan's municipalities spent a total of about \$80 million on projects to sustain their international links in 1997. If this figure is divided by the total number of affiliations, the average cost to a Japanese municipality per affiliation is \$70,000.

This dynamism in local level international relationships in Japan, however, is a relatively recent phenomenon. Over the past decade, the number of affiliations among the Japanese local authorities has almost doubled, and their funding of international projects has grown dramatically. The background to this level of development is a worldwide trend of globalisation, which has started to affect traditionally homogeneous Japan's local economies and communities, the effect being particularly strongly felt from the late 1980s.

Under the circumstances, all levels of government agreed that some measure should be taken to better prepare the community for the rapidly globalising Japan and to introduce a series of programs designed to encourage local communities to develop and promote internationally oriented activities. To give just one example, the Japan Exchange and Teaching Program—or JET Program—which began in 1987, invites younger university graduates from overseas to participate for one to three years in the international exchange and the foreign language education in localities nationwide, including those seldom visited by foreigners. The JET Program has steadily expanded over the years since, and the 1998 program had a total of 5,700 participants drawn from 35 countries, including 355 from Australia.

What are the implications of this trend for Australia? The fact is that it has contributed greatly to creating a most intense and multifaceted bilateral international relationship between our two countries. As I mentioned earlier, Australia comes third as a country with which Japan has established the most grassroots links. Furthermore, in terms of countries with which Australia has grassroots links, Japan follows only, and very closely, the United States of America.

All states except Tasmania, and a total of 84 local governments in Australia, now have at least an affiliation with Japan. Australia and Japan not only have grassroots links which are steadily growing in number, but also they have flourished to encompass a wide range of economic, educational and cultural exchanges.

To give you just a few examples from last year, the City of Melbourne welcomed as many as 160 delegates from Osaka City for roundtable discussions which were convened as part of the celebration of the 20th anniversary of the establishment of the affiliation. This roundtable focused on three main themes that were identified as being important to both of the cities, namely, city management, arts and culture, and business and investment.

In June, South Australian wines were showcased during the South Australian Wine Week in Okayama. The event was attended by a trade delegation headed by Premier Olsen, whose visit to Okayama coincided with the fifth anniversary of the establishment of the affiliation.

A beautiful, small Japanese garden was established in Bathurst, New South Wales, with the joint design, development and funding efforts of Bathurst and its Japanese sister city, Ohkuma. Bathurst also produced a book which depicts a day in the life of two Bathurst students and which provides a lesson in English and familiarises Ohkuma high school students with life in Australia.

Last year also saw the opening of a Japanese garden in Duaringa, Queensland. The shire's sister city, Fujisawa Town, supported the construction and Duaringa, in tandem with Fujisawa, built a house for use by Fujisawa residents when they visit Duaringa.

The cities of Brisbane and Narashino signed an agreement to start exchanges, focusing on wetlands conservation. This exchange project stemmed from the fact that migratory birds travel between the wetlands of the two cities.

These are just a few of the diverse programs which have evolved from Australia-Japan grassroots links. This, I believe, greatly helps to develop more diverse and multi-dimensional channels of communication between Australia and Japan which, in turn, contribute significantly to bolstering the relationship between our two countries.

Encouragingly, I see some signs to indicate further expansion and consolidation of these grassroots links. For example, Australia is increasing in popularity as a destination for Japanese school trips. In 1996, a total of about 14,000 students from 62 high schools visited Australia. While countries such as Korea, China and the United States attract more school trips from Japan, the increase in the number of high school students visiting Australia has been more dramatic, with an increase of 80 per cent since 1994.

Furthermore, in recent years more and more Japanese local authorities have been making use of the international activities as a way of encouraging cross-sectional community participation. One example is a project between Sydney and its Japanese sister city, Nagoya, in which senior citizens from Nagoya are given the opportunity to visit Sydney, the ultimate aim being to promote their ongoing social participation. If these trends can be met by Australia's affability and cosmopolitanness at its best, the channels of communication and understanding between our two countries might expand further to encompass the wider community.

Lastly, let me make a few comments on the greater potential of grassroots links to support community development, as well as international relations, into the new millennium. Grassroots links have a greater potential to make valuable contributions in achieving within any of our communities various development goals. They may contribute to local business promotion, they may provide a new and different way of looking at our own community, they may help find the correct solutions to problems commonly faced by communities in both countries.

It is not always easy, I must admit, to clearly explain the immediate or tangible benefits. It sometimes makes it difficult to gain wide and active support to maintain such activities. In my opinion, however, the greatest impact of grassroots relationships is intercultural person-to-person communication and to change people's outlook to a more flexible attitude. This very essential benefit has always been difficult to assess and express in concrete terms and is more and more integral to community development, as well as international relations, in this age of globalisation which requires us to interact more widely and closely with countries and people from more diverse cultures with different values.

These potential grassroots international relationships may be worth more attention and support from those who are concerned with formulating foreign affairs policies. In concluding my statement, let me acknowledge the fact that a great number of Australian local communities and their residents have immeasurably contributed with their generous friendship and hospitality to deepening the Japanese people's international understanding. I sincerely look forward to your continuing support of Japanese communities, especially because homogenous countries such as Japan still have a lot of catching up to do in encouraging their people to become more globally oriented and culturally open-minded.

**Senator LIGHTFOOT**—In your report, you say that Australian towns and cities offer very little or poor support for the projects. What is the strongest argument for a scheme of this nature? What are the tangible benefits? You have mentioned some, but what are the concise, tangible benefits of the scheme?

**Mr Tabe**—Compared with Japanese local authorities, Australian local councils look for more economic, tangible benefits and exchanges with local communities in other countries, like promoting their products to foreign markets or attracting new investment from foreign countries. Such economic benefits may produce active relationships and grassroots links.

There are some examples which exhibit such tangible benefits. About two years ago, a local council in Victoria—Ballarat Council—introduced a factory of a major Japanese food processing company. This introduction can be partly attributed to a strong sister city relationship with a Japanese city. Also, there are international exchanges between relatively big governments, particularly the second tier of government. It is classified as local government in Japan. There are several links between Australian states and Japanese prefectures. For example, Tokyo Metropolitan Government is a sister state of New South Wales and Queensland is a sister state of the Osaka prefecture. Between states and prefectures there are quite big trade mission exchanges so business links can be developed. There can be international links with regional or local communities.

But in most cases, as you can see, trade relationships have a big picture. A city to city relationship cannot contribute so significantly to an expanding market for Australian products. So in most cases cultural or educational or citizenry exchanges are the core of a sister city relationship. So, as I explained in my statement, there are critics about our sister city links, claiming any tangible benefit is less than the cost of maintaining these international links, but immediate tangible benefits are difficult to assess and indirect effects of our local communities should be more highly valued.

Japan, which is such a homogenous country, has a relatively wider consensus about the importance of citizen-led international activities because it is very important for Japanese people to become more globally oriented and culturally understanding. So there is strong support from all levels of government. National government provides financial support for international activities conducted by local governments—second-tier government prefectures. As well, municipalities contribute significantly to financing, funding, such programs.

Australia is very much different in terms of socioeconomic background. I understand that 25 per cent of the population here is foreign born, so the fact of everyday life might be an experience of multicultural life. Styles of government would be different from one country to another, but the essence or potential benefits available person to person in their cultural relationships is very great.

**Senator LIGHTFOOT**—So what is it that Australia should be doing? Is it because we do not recognise the economic benefits? Is it because we are lethargic? Is it because we have too many regulations that prohibit or inhibit us from doing it and approaching it in the same manner that Japanese prefectures do?



**Mr Tabe**—No, I do not say that, because the background for these kinds of international activities is different from one country to another. Australian local communities should have their own goals or their own way of conducting such aid programs. Basically, grassroots international exchanges should be citizen led—not top-down government led activities. But I think general understanding of the potential of such activities is quite encouraging to those who are actually involved in such activities.

Quite often I have heard from sister city activists in Australia that the main problem is fundraising to maintain such activities and general support, general understanding, among a wider community. Such activities should be citizen led. I do not say government should provide financial support, as Japanese governments do, but I think that recognition of the fact that Australian communities help Japanese communities and the people significantly is very encouraging to people actually involved in such activities.

**Senator LIGHTFOOT**—You mention that this system with your organisation could help globalisation and could help nations at least enter the scheme of globalisation, but you speak of globalisation as if it were inevitable, as if it were a *fait accompli*. Is that what you meant to say? Did you mean to convey the message that globalisation is with us to stay?

**Mr Tabe**—In my opinion, globalisation is a worldwide phenomenon in terms of promoting the national economy of any country as well as more and more free flow of information through the Internet or other community networks. So in terms of the culture and society all countries are experiencing rapid globalisation of many aspects of their lives. My opinion is that globalisation is an inevitable phenomenon.

**Senator LIGHTFOOT**—So you say that Japan will always be a manufacturer of highly value added goods; it will always manufacture motorcars; it will always manufacture electrical items—computers and highly value added export goods? Are you saying that by the same measure Australia will always be condemned to be a supplier of minerals with no value adding?

**Mr Tabe**—No, I do not mean that at all, but competition is now at a global level between one country and another. If the same thing is produced at a cheaper cost in any other country, Japanese highly value added or manufacturing companies move very freely to other countries, so the Japanese economy has to compete globally and the Australian economy has to compete globally. So each country must strengthen its own merit, and an important part of that is to prepare people for such an inevitable globalising of the world.

**CHAIR**—That is one of the challenges that is being faced through the likes of the WTO and APEC, and there is a lot of resistance. One of the reasons we are having this inquiry is to find out what internal resistance there is in Japan to that taking place. We have had evidence that there are entrenched views that ‘We will stay where we are. We are not going to move on or change’ and that there is no imperative or need to change. We are trying to form a view as to what is happening inside Japan itself. You talk about the globalisation as being inevitable but I do not know—

**Mr Tabe**—Globalisation is a wider, broader term, so it can be interpreted in very different ways. I mainly talk about globalisation of people’s daily lives. Of course there is

also globalisation of the economic structure. Answering that question exceeds my capacity, which centres on promoting international understanding and exchange between two countries. But globalisation itself is a very massive mega trend. I believe it will involve quite a lot of logistics in any country. I think more understanding about this change itself is very important.

**Senator LIGHTFOOT**—Can I continue with globalisation. In terms of business, you rely on your exports and your value adding for your lifestyle. Your standard of living is set on a direct correlation between exports and earnings. Australia is the same. But I have always found it difficult to understand why—when we have the iron ore, the coal, the gas and the technology—Japan does not do more in Australia for establishing secondary industry downstream processing because of these commodities. Australia is politically stable and has the most efficient commodity miners in the world in many areas—coal, gas, petroleum, iron ore, alumina powder, gold, manganese, diamonds, nickel and cobalt. These are the biggest in the world. Given this globalisation, why don't you globalise more in Australia?

**Mr Tabe**—Do you mean why does Japan not globalise?

**Senator LIGHTFOOT**—I am using the term 'globalisation' generically here. Why don't you spread your expertise and investment into Australia, given all the attributes that Australia has?

**Mr Tabe**—Business relationships are not actually the field of my organisation.

**Senator LIGHTFOOT**—I understand. It is more relationships, yes.

**Mr Tabe**—May I answer personally?

**Senator LIGHTFOOT**—I understand what you are saying. But our relationship is not just based on being friendly, smiling at each other and becoming compatible because we learn each other's languages; our relationship is built on trade.

**Mr Tabe**—I do not think I can answer that question directly. I think the important thing is this: Australia should try more strongly to let Japanese people in general understand what you feel is the problem and what you think about Japan. My personal experience tells me that quite little is reported in Japan's media about the socioeconomic problems in Australia. I have been in Australia one year and nine months and the image of Australia, compared with before I came to Australia, is completely different.

**Senator LIGHTFOOT**—Does that mean it is better than you thought? Tell me some of the bad things and tell me some of the good things.

**Mr Tabe**—The good things are its beautiful nature. Japan is such a small country. I am from Tokyo, and everyday life is very pressured and hassled and such things. I wonder whether you have experienced peak hour commuter trains in Japan. They are murderous. Here, I can find a seat on a commuting train and my residence now is about 10 times larger than my house in Tokyo, so space and the richness of nature are great assets of Australia.

The people are generally friendly and affable. My family and I enjoy enormously living in Australia and in a much more relaxed way than we do in Japan.

To me, Australia has great potential to develop but Japan is such a small country with a huge population and it is rapidly heading towards having the most aged society ever experienced by mankind. The general trend for Australia is up and for Japan it is down, so in terms of quality of life I see you are enjoying a much better lifestyle here in Australia. I now personally understand the quality of life in Australia.

**Senator LIGHTFOOT**—And the negatives?

**Mr Tabe**—The negative side that I have seen since I came here—mainly from newspapers and TV—is that you face many social problems—drugs are one thing, a high unemployment rate, a high youth suicide rate and child abuse. Japan has similar social problems but the extent or degree of such problems is relatively low compared with Australia's.

Sometimes it puzzles me why Australia has such serious social problems despite the fact of its future potential, being rich in natural resources and things like that. But the bottom line is that I love Australia and I enjoy living here very much, but what I would like to say is that Japanese people in general are not very familiar with how Australian people are living their lives and with what problems face Australian people.

I think that local level—or grassroots—links will contribute significantly to making Japanese people more understanding of real Australians' way of living and what problems they have here. I think in that sense that local level—or grassroots—links will contribute to making Japanese people more aware of the problems you have mentioned—different levels of globalisation and things like that. It will make them more clearly aware of that. I think there is great potential for that, and it also benefits the Japanese people and communities very much.

In Japan our foreign born population is maybe three per cent or two per cent. Here it is 25 per cent. You are very much advanced in providing services for non-English speaking people and in how to make living more friendly for different cultures and things like that. So I think Japanese communities have a lot to learn from Australian local communities. It is a win-win situation. Both countries can benefit from active international relationships at a grassroots level.

**Senator LIGHTFOOT**—That was a very good answer. You are an excellent diplomat too, Mr Tabe.

**Mr Tabe**—I am not a diplomat but I try to be.

**Senator LIGHTFOOT**—I mean that—you are a very good diplomat.

**CHAIR**—Could I ask you about the importance of an organisation such as the Australia-Japan Foundation.

**Mr Tabe**—I am not very familiar with the actual projects of the Australia-Japan Foundation. I understand it is about deepening mutual understanding of Japan and Australia. I think that the Australia-Japan Foundation used to provide some grants for students or citizens, but recently I heard they do not have such grants or programs anymore.

**CHAIR**—The Australia-Japan Foundation is funded by the Australian government with a view to improving and maintaining good relations with Japan. They appeared before us and they did give us evidence of how they are putting material into Japanese high schools and primary schools to explain about Australia and Australian culture. Obviously that message is not getting through.

**Mr Tabe**—I think that is a very important activity. As I said, generally speaking quite limited information about Australia is available to the Japanese people. Australia is very popular as a tourism destination among the Japanese people, but they come here and go to the Opera House, the Sydney Harbour Bridge, Ayers Rock, the Barrier Reef and that is all. The real situation in Australia is quite little known, so it is very important to give to Japan detailed, real information about people's lifestyles, the good and bad programs of Australia and much more. So in that sense the Australia-Japan Foundation is very important to providing real information about Australia.

**CHAIR**—Will the current economic problems in Japan—the lack of consumer spending, business-banking problems and so on—lessen the injection of money into the sister city and sister state programs? Will government react by cutting back their funding to the various programs?

**Mr Tabe**—That is a very important question.

**CHAIR**—It affects your job.

**Mr Tabe**—Recent economic slumps have been affecting local government finances significantly, especially Tokyo, Osaka and Aichi. Such urbanised local governments are affected most, because their revenue highly depends on the tax revenue from companies, businesses. The second level of government, prefectures, are more subject to economic fluctuations, so recent economic slumps have affected big cities and big prefectures significantly. So there is a slight trend of Japanese local communities being less active in international programs.

But our intergovernmental finance system is actually a little different from Australia's because Japanese local finances are more fully coordinated at a national level. Each year the Japanese national government prepares a local finance plan, which coordinates local finance revenues so that each municipality can maintain their standard level of programs or policies. So it is similar to the financial assistance grant system in Australia, but you can assume this financial adjustment system is more extensive than in Australia.

So if local authorities continue to maintain the same level of services or programs, it is possible because sufficient funds are guaranteed through this national finance coordination system. And, importantly, these international activities are now firmly incorporated in this local finance program. So, even if their tax revenue decreases because of the economic

slump, this tax decrease is compensated for by the increased amount of financial assistance grant from the national government.

So in that sense, financially, grassroots international programs are quite securely guaranteed. I do not think there will be a significant decrease in these programs because, as I emphasised, Japan still has a lot to do to prepare people to be more globally oriented. So I think these programs will continue at quite the same level. Australia has a lot of advantages over other countries—like it is an English speaking country, it has a breathtaking nature, and friendliness and cosmopolitanness of people. So, as far as Australia-Japan grassroots links are concerned, I think there is still room for expansion or consolidation.

**CHAIR**—We have heard today of a decrease in the number of Japanese tourists coming to Australia. We heard a report that Japanese visitors, as you said, have seen the Opera House, they have seen Ayers Rock, they have seen the Barrier Reef and they have seen the Gold Coast. One must question the value of these relationships. You seem to put them on a broader plane than just the economic—that the cultural and other interrelationships are very important as well. Will the relationships survive?

**Mr Tabe**—Of course. Could you rephrase your question, please?

**CHAIR**—It seems to me that the Japanese do come here, they see us once and they are not coming back to us. The economic circumstances are getting worse in Japan. Fewer tourists are coming out. We heard that from Qantas and the Australian Tourist Commission this morning. I am just wondering how great a desire there is to foster these relationships.

**Mr Tabe**—As far as tourism is concerned, I think the Australian tourism market has yet to exploit its real potential in appeal to Japanese people. Japanese tourists tend to be very busy, quick travellers—one day in Sydney, one day on the Gold Coast and so on. But such quick trips will not make them experience the best part of Australia. I think Australia's merits with regard to tourism relate to its more relaxing, life enjoying experience. In that respect, exchange delegates coming from Australia bring with them many different experiences than general Japanese tourists do here. I have seen that the interaction between many Australian and Japanese communities has contributed to attracting Japanese people to this country. This is not only because Japanese counterparts send their delegates to Australia but also because delegates usually return to Japan with wonderful memories of warm Australian welcomes and hospitality, and word of mouth proves an effective promotional tool for Australian tourism in the Japanese market. In this respect with tourism also, there are grassroots exchanges which provide for opportunities to introduce Australian people. I think this has a great potential to make Japanese people realise the real attractiveness of Australia.

**CHAIR**—You might not be able to answer this, but we will try. Do you know the percentage of Japanese who speak English?

**Mr Tabe**—The level of English speaking is different. As you may be aware, we start studying English in schools at seventh grade and more than 90 per cent of all Japanese people study up to 12th grade, so most of them study English for at least six years. So the English understanding skill among the Japanese people is quite high. But you might also be aware that the Japanese school English education traditionally is more on the grammatical

side. We study quite difficult expressions, but for practical purposes Japanese people are not so good at communicating with English speakers.

English education itself has been changing dramatically. High school students have more chances nowadays to interact with native speakers in their classes. The JET Program—the Japan Exchange and Teaching Program—contributes greatly to providing opportunities for Japanese youngsters to communicate directly with native English speakers. Why did you ask that question?

**CHAIR**—Because it might help us in writing our report.

**Mr Tabe**—Sorry, I did not know that.

**CHAIR**—We have the most simple reasons for asking some questions. At the end of this we will write a report and it may well assist us in compiling our report. We are trying to get a contemporary view of Japan.

**Mr Tabe**—I see. I do not have statistics.

**CHAIR**—No, that was very helpful. It does not have to be a Bureau of Statistics report.

**Mr Tabe**—I think most Japanese people now have a minimum or higher level of English speaking skill because of a lot of school English education.

**CHAIR**—I have no more questions. I have been deserted by my colleagues. It is not a reflection on you, I must explain. We will now draw this session to a close. Thank you very much for appearing and we appreciate your evidence.

**Proceedings suspended from 3.27 p.m. to 3.39 p.m.**

**STEVEN, Associate Professor Robert, Head, School of Political Science, University of New South Wales**

**CHAIR**—I welcome the witness to this hearing. In what capacity do you appear here today?

**Prof. Steven**—I am appearing in a private capacity.

**CHAIR**—The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. The committee has before it a summary of the oral submission you will make in your opening statement. For the purposes of obtaining an accurate record, would you remain behind at the end of the proceedings so that the Hansard officer can check spellings and sources of information provided this afternoon. I invite you make a brief opening statement and then we will proceed to questions.

**Prof. Steven**—In my summary I have tried to follow the guidelines of your terms of reference. If I had to give an overview of what I am mainly trying to say, I would say that I see Japan as a society which does not change very easily or very rapidly. I know that some people believe that change in Japan today is very great and that Japan is being totally transformed. I am not of that view. Some changes are taking place, but I feel that they are not very great.

I would like to say something very briefly about the economy and the political and social factors. As far as the economy is concerned, I want to talk in terms of the political and sociological economy and the structure of how the Japanese system works. The Japanese miracle, as it was known, was something that really began to end in the mid-1970s, and one of the main reasons I believe it existed was that Japan had an extraordinary productive power. It was partly a social thing—the organising of business—partly a technological thing, partly a managerial thing, but above all I would say it was the capacity of the private and state upper-class networks to get people to work hard and smart in collective ways.

That enormous productive power was matched by a demand which did not put any brakes on it until the mid-1970s. The reason there were no problems either on the cost side or the demand side is that Japan produced industrial goods, and most of these goods were investment goods—Japan was very heavily involved in the production of investment goods: it imported raw materials and produced ships and iron and steel investment goods. As long as growth fed growth, investment demand absorbed the product that was made.

What happened in the mid-1970s was that, following the oil crisis, there was a raw material crisis and Japan restructured that raw material processing into producing consumer goods. That began in the mid-1970s. Consumer goods were motor cars, electronic goods—radios—and the range of things we call whitegoods that we associate with Japanese industry. Today 75 per cent of Japanese exports are still consumer goods. If you have an enormously productive system as Japan did throughout the 1970s and 1980s—Japanese productivity

increased much more rapidly than Japanese wages—and you make consumer goods, you are going to have a problem because wages are the source of your demand. So the structural problems of Japan which we have today were really laid in the mid-1970s when the restructuring out of investment goods took place. Initially the problems were exported to the United States and Europe. There were huge surpluses on trade with the United States and Europe—we felt some of that here. The objections that the Americans and Europeans made led Japan to what I call an ‘Asia zone strategy’. Up to that point Asia was the place where Japan produced cheaply; it did not necessarily try to market its goods there. But following the blockage that Japan experienced in America and Europe, there was an attempt to market their goods in Asia. China became a market source even more than a source of low-cost production. So did India. Many of those places that Japan traditionally did not have a lot of economic involvement in became solutions to the market problem.

The Asia crisis temporarily but very significantly interrupted that strategy and the problem bounced back to Japan. So I do not believe there is a solution here because when Japan exports too much to the United States the United States has a balance of payments problem. If Japan exports too much to Asia, Asia has a balance of payments problem—Asia tries to export back to America and America blocks Asian imports. So there is a real structural problem in the region with Japan’s massively excess productive power in consumer goods—it would not matter if it were not in consumer goods—which is not matched by consumer demand.

The recession lingers on because the normal response to recession is to make things more efficient—to cut wages. Bonuses were cut by two per cent just last month. The Japanese system has an enormous power at the top to squeeze the bottom and that has not changed. I could elaborate that quite a lot but I am trying to summarise. Let me just finish this line of thought because it is so critical to the whole thing.

There are many government programs injecting money into it. They say, ‘We will revive the Japanese system if we can inject a lot of money.’ Huge government spending programs occur and there is no response because the money does not go into consumer demand—it goes into the web of networks that possess the power anyway to squeeze the bottom. What you need in Japan for this problem to rectify itself is that you continue to displace it abroad—onto Asia or onto America—or, if it bounces back as it is now, you need a political change in terms of power at the bottom to demand the kind of living standard wages that can stimulate consumer demand.

None of this has happened. The big government expenditure program is going to concrete—Japan produces concrete. Professor McCormack from ANU refers to Japan not as an industrial state but as a concrete state because so much of the money goes into interests that are involved in construction and urban land development—concrete. I use the word ‘gumi’ because construction companies are ‘gumi’, but so are gangster organisations. There is a lot of corruption in that area linking construction interests to shady political interests at the heart of the political system as well.

I will briefly summarise why there is not a lot of political change in Japan. Over the last 10 years many new parties have emerged: there has been a socialist government and there have been middle-of-the-road governments, and people have predicted that Japan’s whole



political system is in a state of change. If you look at it more carefully you will see that there is very little change. All of the governments in the last 10 years were the creations of members of or leaders of the old Tanaka faction. The old Tanaka faction was the one which came to power in Japan in 1974 on the basis of what was called ‘money power politics’. Tanaka had a lot of shady interests; he was also in construction. His protege was the former Prime Minister Takeshita.

**Senator LIGHTFOOT**—The former Prime Minister.

**Prof. Steven**—Former Prime Minister Takeshita. Most of these people have been convicted for corruption. They retire from the party actually because of these reasons but they continue to pull the strings. Obuchi was selected by Takeshita. His predecessor was also selected by Takeshita.

The so-called ‘liberal’ Hata governments of the mid-1990s were selections of Ozawa Ichiro, who, we must remember, was also a member of the Tanaka faction. The Tanaka faction split into the Takeshita branch and the Ozawa branch. For quite a while Japan had a two-party system: the Shinseito and then the Shinshinseito—the new party and then the new new party, because they tried to dress up an old thing with new clothes each time, but that was always the Ozawa grouping. For a time it seemed that Japan had a two-party system but the two parties were really led by the two groups within the old Tanaka faction. Ozawa’s star has been falling and his larger grouping has since crumbled away and he really does not do much any more. He now leads the Liberal Party, which fairly recently joined back into the LDP.

There was a big fanfare for quite a number of years: a new two-party system with new leaders and new policies was emerging. It has now come the full circle. The achievement of this whole thing was to decimate the Socialists and that was really Takeshita’s plan in selecting Murayama, the leader of the Socialist Party, to become Prime Minister with the support of the LDP. It was the strangest thing that could happen. The socialists—the long-time opponents of the LDP—entered office and had their own leader as Prime Minister but he could only be there with the support of the LDP. That was Takeshita’s idea and the Socialist Party today does not really exist in any real form. It was traditionally the strong principled opposition. Today Japan does not really have what you might call a substantial principled opposition.

So politically it is still cabinets or coalitions of minor parties and factions. In the 1950s we used to read about that; it was the first thing I learnt—parties or coalitions of factions. That is really what a lot of these parties were. They were originally just splinters from the LDP.

I do not want to exaggerate the absence of change, but so many people are saying that change in Japan is so great today. The institutions of Japanese society are not ones which change a great deal. I would say it is a relationship society; there are many institutions and practices in Japan which continue to foster relationships. Corporations have relationships which are firm. I know a lot of people want the market to intervene but a lot of the strongest interests in Japan do not really see why capitalism should work through a market. Capitalism is a system of creating and appropriating wealth. To Westerners it is a system which is

supposed to be fair and equal; it is supposed to distribute resources and allocate work and so forth. But to the Japanese, those decisions can be made through institutions other than the market. So even though there are some pressures on the market, I do not see changes in Japan being market induced so much.

Some of the changes may come from very high levels of apathy and alienation in Japan. I have brought something simple along but there are many sources of it. You can see it here at a glance. These indicate the degree to which the people believe that the opinions of citizens are reflected in their country's politics. There is 'reflected' and 'reflected a little'. You can see with Japan there is a very small amount, around 15 per cent, of people who believe there is any reflection.

**Senator LIGHTFOOT**—This is a bar chart on a poll or polls taken, is that right?

**Prof. Steven**—It is a bar chart. A poll maybe to a bar chart. It shows that Sweden has over 50 per cent of people who believe that; Germany is quite alienated. You can see the United States and Britain. Usually just under 50 per cent of people believe that their opinions are partly or well reflected in their country's politics. In Japan it is extremely low.

With regard to the turnouts for elections, 40 per cent of people do not vote in elections. The people who say they support no party move into 60 per cent in mini-polls. Governments are elected with very thin popular support. People do not expect much of governments, so there is a lot of alienation and political apathy. There is not a lot of political protest.

**Senator SANDY MACDONALD**—Has that changed?

**Prof. Steven**—I think it has got worse. Japan used to be in some sense like Australia: voting was seen as a duty and people just did it without a law there to enforce it. In the more conservative rural areas the turnout rate used to be very high, and it is still considerably high. It can go below 50 per cent in Tokyo in the general elections. People just say, 'I am not interested in voting. What difference does it make?' They are very cynical about it.

In the political system there is no source of change and improvement. Socially, Japan remains quite tight. There is this phrase *kaisha-shakai*—*kaisha* reversed is *shakai*. They are written with different characters. It is a company society. The company remains very strong and people show allegiance to the company, even though the company does not offer them the job security and benefits that it used to. The company has the power and ability to assert its authority to demand that people overwork—*karoshi* is the term for overworking. It has finally been recognised, even at the government level now, that people overwork. So the focus of people is on their company and on maintaining their job. It is so hard now as Japan's unemployment is 4.6 per cent. It is very high for a country like Japan.

The power of the company in a society with a very flimsy social security network seems to have got greater rather than less. I would say there is a company society and the focus of people's lives is on the company. The way the company determines social life—for example, according to one poll recently 60 per cent of Japanese men eat out more than four or five times a week—is a stunning thing, with people spending time at work and after work to put

in their extra ounce of energy to show goodwill towards workmates. There is voluntary overtime as part of that syndrome.

I feel that people in Japan are working very hard. The ordinary people are taking a big hit in the recession in terms of the living standards and unemployment. The saving now increases because people feel so insecure. What a few years ago was deemed to have been a problem of the past—excessive saving and not enough spending—kind of exacerbates the problem of what we might say is overproduction or too much power to produce for what the country's markets can absorb in those areas. I have probably talked a lot more than 10 minutes.

**CHAIR**—No, you go right ahead, as we said.

**Senator LIGHTFOOT**—We are happy to ask questions.

**CHAIR**—We will ask questions. Do not worry about that.

**Prof. Steven**—One of the areas that I have always hoped that change might come from is from women in Japan. To some degree it does. Women have been the main losers in the current recession in terms of jobs—part-time and full-time jobs. Women build networks and have networks that are away from work, some of them traditional and apparently quite conservative. Women are very active in protests around family related things such as those relating to nuclear power plants. If there are any of those incidents, the women are very strong in those things.

But it is a very hard life in Japan for a woman who does not have much of a home life because the husband has long hours at work. She cannot get much of a life at work herself because, on average still today, we have to say the wages that women earn as a percentage of men's is just over half, and if we take all the benefits in it is probably less than half. Only South Korea can boast such a statistic. So the low earnings of Japanese women make sure that it is they who stay in the home. Their remaining in the home prevents them from actively participating in the career structured jobs. There are career structured jobs and there are just the general jobs in the work force.

So, when people talk of the decline of the family, I would often say that the Japanese family has been an unhappy place for some time. For example, most people live in very small houses. The husband comes home very late at night. It is very hard to have a family life. The houses are so small they probably sleep in the same room with the children. So there is not a healthy family life. Women bring up children on their own and they often say they are having to bring up the father as well because he is an additional person to look after. It is quite an austere life, as you can probably see. I used to be married to a Japanese and I lived in Japan for some years. I have always had a love-hate relationship with Japan. When people attack Japan I end up defending it and when people are defending it I end up criticising, and, as I was saying to you earlier—

**CHAIR**—We are going to win both ways.

**Prof. Steven**—So much of it is a matter of opinion. There is a lot of passion. I have studied a lot but I also have a lot of passion and experience and my passions can warp my views too.

**CHAIR**—Thank you.

**Senator LIGHTFOOT**—That was very interesting, Professor. I appreciate your attention to the minutiae of your particular passion. I am always very interested to hear what people say. I think it has more of a tinge to it of genuineness than someone who has just a superficial or commercial interest, so I very much appreciate your contribution. You said that Japan has not been transformed. Perhaps it is only the degree that we disagree with. From my inexperienced eyes—nonetheless, it is an isometric view that I have of Japan through the press or the media—I do not see Japan remaining static since the war. Certainly history tells that, in terms of the feudal system that operated pre-MacArthur, it has been transformed. I am just wondering what you mean when you say that it has not been transformed?

**Prof. Steven**—I suppose I am meaning more in the last eight, nine or 10 years the kinds of changes—the market is supposed to be intervening so greatly. There was a change after the war, definitely. There was also a bit of a reverse course. I think the company took over from the family as the centre institution of their society after the war.

**Senator LIGHTFOOT**—Yes.

**Prof. Steven**—I am thinking mainly of some of the recent debates that are going on in the United States in particular, where people are saying Japan is now no longer a society whose corporate structure will be dominated by linked groups of companies. The caveats of the market will take over. Japan is catching up to the United States.

In the early 1980s the argument was the United States would catch up to Japan because Japan was No. 1. You had to then model your economy on the Japanese way of subcontracting jobs out and subcontracting components—just-in-time systems of delivery. This was the Japan way which America was then imitating in the early 1990s because Japan was No. 1. Now America is No. 1 and Japan is not No. 1—this is kind of popular mythology—and people are saying Japan will catch up to the United States.

I do not think that that will happen greatly. They are different capitalisms. The price auction model seems to dominate the way American capitalism works. I think relationships and multi-stakeholders in the company will continue to dominate the way Japanese capitalism works. That is definitely a post-World War II phenomenon, so I am not talking about that particular change.

**Senator LIGHTFOOT**—Would you give any credibility to the hypothesis that the United States—perhaps other allies, but predominantly the United States which controls commerce, which controls currencies; it is the world's policeman now—kept the conversion of the Japanese yen artificially high in favour of Japan in order to create an industrial giant that acted as a bulwark against what was perceived in the fifties, sixties and even seventies as being the tidal wave of the yellow peril that might come east towards America again?

**Prof. Steven**—I think that that is quite widely held and quite true. It started really quite early, and those of us who deplore the dropping of the bomb can see the first move in that game taking place there—that Japan had to surrender to the United States so the Soviet Union should not be involved in it. Instant surrender was necessary. There was the whole change of policy of the occupation from one of democratising Japan, freeing communists, to the purge which purged almost a million people from their jobs in the early 1950s to reassert a conservative regime. There were the old bureaucratic influences, many of them involved in war crime trials, and politicians rehabilitated. I think with a lot of that it is really very widely accepted that the strategy and the maintenance of the yen at its low level was one of the policies to make sure that Japan became very strong because the United States relied on Japan. I think it was Prime Minister Nakasone who said he was so proud that Japan was America's unsinkable aircraft carrier.

**Senator LIGHTFOOT**—Yes. I do not know who it was, but I certainly have heard the expression.

**Prof. Steven**—That was the case. A lot of the trade friction and a lot of the passion behind the trade friction of the 1980s was fuelled by a lot of that pre-war rivalry, war rivalry and postwar rivalry. I suppose gradually the world order has changed. They do not have to be rivals, and they have gradually discovered that. Big powers do not have to be rivals in a world order in which direct colonies are no longer possessed, because so much of the big power rivalry was over colonies and, after decolonisation, it became less necessary.

**Senator LIGHTFOOT**—Has there been a transposition of the feudal system, which was open and very much overt, to a situation where that feudal system, even that mentality of a feudal system, has been transposed into industry, becoming more covert in the sense it was hiding behind the facade of industry, but was still, in effect, feudal of a kind?

**Prof. Steven**—Yes. I like the way you put it there because people sometimes say Japan is still basically feudal. Basically feudal means that the rural system of production and rural relationships still dominate, and that is definitely not the case.

**Senator LIGHTFOOT**—MacArthur made sure of that.

**Prof. Steven**—Yes. As Japan made its transition to capitalism, it had to develop institutions that would work in a capitalistic way and of course it had to rely on its own institutions. So a lot of the 'feudal practices', we might say, that used to have their basis in the rural area suddenly got their support in industry. But even they did not get transplanted naturally. For example, the system of lifetime employment about which people sometimes say, 'Oh, that's just the feudal lord's obligation to the serfs saying, "We will be loyal to you. You serve us loyally and we'll return job security for you."'

That did not come directly. That came after a period of quite intense political struggle in the 1910s. Initially, large employers with new modern factories were finding it very hard to get workers. Their first response was to kidnap workers and they then tried to make agreements with each other not to poach workers. Eventually the system of rewarding people for their length of service and then keeping them on developed, and then it was found that also suited the culture. So one might say a lot of the practices suit the culture, but they did

not necessarily get transferred immediately from the culture. There were often very concrete business related reasons why some of the practices were adopted.

**Senator LIGHTFOOT**—Let us talk about the culture. Does having that homogeneous culture produce a homogeneous thought that is easy to control, in that you can tell what the person next door is thinking and therefore the whole street is thinking the same thing? Is that part of the formula for success that Japan has used?

**Prof. Steven**—I think so, although it sounds funny to be saying it. We would want to qualify it a bit. Japan has a homogeneous culture, but there are minorities. Minorities have quite a difficult time in Japan.

**Senator LIGHTFOOT**—The Ainu, for instance.

**Prof. Steven**—The Ainu, the Korean minority and an increasing number of labourers from South-East Asia. There are descendants of Japanese from Latin America living in Japan. These people find life in Japan quite difficult.

The pressure to conform in Japan is very great. I think a lot of the difficulty that Japanese employers might have with foreigners concerns this: even when you are fluent in the language, you do not understand the nuances of how to behave properly and you do not know when to submit properly.

**Senator LIGHTFOOT**—Is submission an integral part of Japanese culture?

**Prof. Steven**—I think it is. It has a really good side. It is my love-hate thing, and I trace this to a very long time ago. Japan was a rice culture. It was a cooperative culture. You had to cooperate in producing rice and harvesting rice. Villages had to cooperate because the water irrigation system required that you not block off the river because then the village down the road would not get water. So there is a very strong egalitarian cooperative tradition.

There is also a very strong authoritarian tradition that came with feudalism and various forms of centralised and decentralised feudalism over the ages. In the earliest periods it was highly centralised. It was a kind of state feudal system. The state extracted the surplus that was taxed. Then it was decentralised and centralised again.

Very strong authoritarian traditions were created in that way but they do coexist with the democratic ones. So you will find yourself sometimes misunderstanding something and anticipating that orders are being given, whereas actually a consultative practice is going on. You will also find very often that people whom you think would have authority to speak—for a company, a government or a group—have no authority because they have to consult. In many cases our concept of ‘leader’ does not exist in Japan. The notion of leadership exists, but leadership is a collective thing. Those aspects, when they coexist with this authoritarian thing, can often be misunderstood—because they are really quite democratic.

One of the most superb books written on Japan is by Karl von Wolferen—*The Enigma of Japanese Power*. He goes on about the difficulty Westerners have with understanding Japan

because we are always wanting to identify whom is responsible. He says nobody is responsible: it is a network society; it is a network of communication that will eventually come up with a solution—a policy or an idea—that can be strong and sensible.

**Senator LIGHTFOOT**—Was that tome written during the Axis years?

**Prof. Steven**—No, this book was written in 1988.

**Senator LIGHTFOOT**—It is quite contemporary.

**Prof. Steven**—Yes. It made a very big impact on Japanese scholarship and on the people in Japan, I suppose, because he was the first to say it so starkly and so critically and to also point out that prime ministers were unimportant, politicians were unimportant and individuals in government were not important.

A lot of people knew that. Business people you talk to in Australia will have often found it quite frustrating that the delegation that they have been talking to has no authority because it has to keep referring things back. They can see it as devious, which it is not; it is just that it has to be a collective process—and that is the egalitarian side.

Some people who have puzzled over this have said, 'Japan doesn't have Fordist style authoritarian management'—the Ford factory where each task is broken down into a minute bit and then management dictates to people what they will do. Some people will say that Japan actually has quite a democratic system in which the workers work out their tasks and there is a bit of management from the bottom up, so that the whole factory is much more democratic, because it is a post-Fordist system.

This was the conventional wisdom of the mid- to late 1980s when Japan was number one. It was said to be not only the best producer but also the most democratic one. I do not think that is entirely true. I think that Japanese workers on the shop floor do generate a lot of their own spontaneous ideas but I think they also have to supervise themselves.

**Senator LIGHTFOOT**—It is almost DNA rather than culture, isn't it?

**Prof. Steven**—I think it is culture.

**Senator LIGHTFOOT**—Yes?

**Prof. Steven**—Yes. I am always surprised, when I meet Japanese friends in Australia, how easy they are, how relaxed they are and how easily they fit into Australian culture. When I go to Japan, I find that I do not wash dishes, I just do all the things that the society demands. I get quite uptight. I am quite formal. I bow around the place. I just fit into the conventions very easily, because I just feel you have to.

**Senator LIGHTFOOT**—I think an important issue has arisen that is implicit in what you have said, in that—and I must say this in retrospect—the workers there, the shopfloor people, almost seem to have been treated in an immoral, improper sense. They put their life into their factory but now they do not have a job for life. They have the indignity of unem-

ployment and now they do not have a great deal of their culture to rest on, to absorb or to revitalise them because that seems to have diminished. That culture has diminished with the culture of jobs for life.

**Prof. Steven**—Yes, I think so and I think people feel very bad about it. If you go into a working class eating and drinking place and you talk to people, there is a level of concern, worry and a sense of ‘we gave our lives for it, so what can we do?’ There is not really a solution. As for what will happen in the short term, I feel that the vulnerable members of Japanese society will sink and live badly, probably unnoticed and initially not capable of formulating a way to respond politically.

**Senator LIGHTFOOT**—Have they been Europeanised to that degree? Could you apply that term to it?

**Prof. Steven**—No, I do not think so. What do you mean by Europeanised?

**Senator LIGHTFOOT**—I mean Europeanised in the sense that we accept a high level of unemployment comparable with Japan. We accept that there are people that you cannot save. We accept that there are going to be street people. We accept that there is going to be a high degree of people that are unhappy, with suicides up and so on. We accept that. We may not like that but we accept that. I am not saying we like it or even embrace it—of course we don’t—but we accept it to the degree that we do not go out and do anything of a manifest nature to prevent it. Is that going to happen in Japan?

**Prof. Steven**—I think Japanese society still has safety nets through family networks and others and that some of the collective spirit of the society will prevent the full down-and-out syndrome that we can find more commonly here.

We also need to recognise that for a long time Japan has had levels of underemployment. If you calculated them in ways that were comparable to those of the United States, you would have to say that for a long time Japan has had quite a high level of ‘unemployment’. Let me rephrase—

**CHAIR**—You are not telling us anything new. That is something that we have already had in evidence before this hearing.

**Prof. Steven**—There is not a distinction between employment and unemployment in Japan as there is here; there are just levels of work that you do, so for a long time a lot of people have lived insecurely. What happens now is that things go a notch down, with more people not working totally but with a very large number of people living insecurely and having to rely on their networks.

**Senator LIGHTFOOT**—I have just two more questions for you. I really have compromised your time, but it has been very interesting. Firstly, MITI, the Ministry of International Trade and Industry, seems to be an emasculated force, particularly when you compare it with the 1950s, 1960s and 1970s. Is that true? My second question is, given the stimulus package needed, by consensus, in Japan to get the economy going, is that stimulus likely to come from self-defence force spending; if it is, what is your view on it?



**Prof. Steven**—To start at the end, I do not think that it will come from self-defence force spending because it is consumer demand that is the problem and self-defence force spending is not really going to do much about that. Any kind of stimulation of demand for investment goods and self-defence force spending is going to be mainly in that area, hardware spending. What Japan needs is consumer demand, and I think the view of the Japanese government and of most people is that it is going to be a 10-year process of sorting that out. It is going to limp up a little bit here and there. It is not a problem of industrial organisation, it is not something that MITI can do much about. Is MITI a spent force? I would not say that it is a spent force. I would always say that Japan's power in the production place came through a highly coordinated process, partly, though not entirely, by government, but also by private networks. MITI was a part, the Ministry for Finance was a part and other government ministries were a part, but the private networks were very important in that too in planning and organising at the level of production. They have always been good at that and MITI is still good at that, but it is not really the problem. The problem is consumer demand again.

**Senator LIGHTFOOT**—MITI cannot do anything about it. That really superimposes what I was trying to put to you. It is emasculated to some degree anyway.

**Prof. Steven**—Yes. It cannot do much about it. The problem is really political in the sense that the upper-class networks of corporate and state power need to recognise that they have to give something away to get it back again. They have to lose some control, lose some competitiveness on the cost side, allow wage increases. It is quite widely recognised that the tax increase in 1997, when they lifted the consumer tax instead of dropping it, was crucial in exacerbating the recession. People say it could even possibly have been the critical thing that tipped the balance at that time.

**Senator LIGHTFOOT**—But Japan has a high per capita rate of savings, doesn't it?

**Prof. Steven**—Yes, and that is exactly the problem. People feel that they have to save for their old age, for weddings, for their health and for their social security, so they preserve all this money, and where does it go? It used to go into productive investment. What happens if all the productive investment outlets have been used up? It then goes into speculative investment; it goes into land and the share market, and land and the share market fall. There is still the problem of that productive capacity and what can absorb it. The Japanese system now really knows only how to export it.

I sometimes think that the Japanese system will emerge from the recession after or hand in hand with Asia rather than lead Asia out of it, because so much of Japan's strategy to solve its own problems was in Asia. Japan was the dynamic force industrially, it was the market force, it was becoming increasingly the force of financial strength in Asia as well, and the crisis knocked all that back. Japanese industry did not really have a response to it; it was kind of piecemeal. Maybe a revival of Asia will revive something in Japan but I think the westernisation of Japan in the sense of the higher and more permanent levels of unemployment and poverty may well be the price that Japan will have to get used to.

**CHAIR**—What impact will that have on Australia? Have you got a view? In answering, what should be our response?

**Prof. Steven**—In terms of the traditional investment, trade and financial things, Australia is Japan's third largest investment target. Japan's investment is overwhelmingly concentrated in raw materials and nature related activities like tourism. This was built up in the 1970s. More recently, some of Japan's interest in the manufacturing industry originally came in because of the market in Australia. Car production was stepped up in Australia because it was the only place you could get into the market because the Australian market was protected. As that diminished, the Japanese car companies had to treat Australia as a cheap production site or not a place to produce. Nissan pulled out. It decided that Australia simply could not be cheap enough. Toyota stayed in and decided to produce engines and other things here and use Australia as an export base.

**CHAIR**—That was also partly because we had a good skills base as well.

**Prof. Steven**—Yes, but the most sophisticated motor car parts are imported.

**CHAIR**—I accept that, but our skills base is important in that area as well.

**Prof. Steven**—Possibly. But increasingly these days the AC and the Asian cars which Toyota, Mitsubishi and Nissan produce have a lot of parts in Thailand, Malaysia, the Philippines and Indonesia. The skill base there is not as high, but the relative share that Australia has in this in the value added does not make Australia a place that Japanese producers simply have to run to. They could easily opt for shutting down. It is the strategy quite open to them. They could relocate. There is such massive excess capacity globally in the production of motor cars—about 30 per cent of global car producing capacity is excess—that all the car producers globally are charging to try and improve their productivity. Productivity in Australia is good but Australian wages are high, and these days the international corporations get their edge through a combination of their high technology with skilled but also cheap labour. Australia is English speaking, and that is good. So is the Philippines. The Philippines is quite a favoured place for certain stages of motor car production too. So I think we are quite vulnerable, because the bulk of our exports are still in the raw materials. There is a small proportion of manufacturing exports but not a lot, and the overwhelming bulk of Japan's exports to us are in machinery and consumer goods; 75 per cent of our imports from Japan are in that category.

**CHAIR**—There have been a number of rescue packages to try and rescue the Japanese economy over a period of time. I think there have been about eight in recent times. None of them have really reaped any success whatsoever. What does the Japanese government really need to do to revitalise the Japanese economy, in your view?

**Prof. Steven**—Without repeating myself, it should find ways of getting those rescue packages to prioritise consumption rather than investment demand. These rescue packages go into public works kinds of things. Public works kinds of things stimulate iron and steel and stimulate a whole range of industries relating to construction except the whitegoods industries, which would be consumer goods industries. So this really remains the perennial problem. It is a structural problem, in my view. The limit of debt has gone nowhere. Japan's public debt now is so high. The priority is for public expenditure, and 60 per cent of the allocations in these packages continues, as it did in the 1960s, to go to these investment related, construction related, projects. It is not really targeting the thing in the right way.

Sometimes you wonder whether the analysis is wrong or it is simply the inability politically to put the money onto the other side.

**CHAIR**—If I can just interpret what you are saying in another way, it seems as though there is need for political reform as well. If there is a need for political reform, what political reforms should take place that will bring about the changes you see as being necessary?

**Prof. Steven**—There needs to be a party system that can genuinely reflect public opinion and people's needs in some kind of a real way. For so long, the party system has been based on an electoral system designed for failure. The electoral system—the issue of the electoral system is not completely relevant to the discussion now but it has some relevance—was one that fostered small parties based on personality and it fostered parties within a party based on personal factions. This resulted in a very big spending system politically because people from the same party were competing with each other.

The conservative party, for example, would put forward four candidates in one electorate and the voter could only vote for one of them. They competed amongst themselves for votes. They built up private party machines. The conservative party did not have a party machine. It had what were called *koenkai*—personal support groups of the particular politicians who needed money to service those support groups. There was no party system. There were only these personal factions.

The electoral system has now been reformed to do away with this kind of internal competition within a party. The party system—and perhaps this reflects our times—is less and less drawing people's allegiance. Fewer and fewer people are strongly attached to any party. More and more people make up their mind at the last minute. In that kind of situation, it is very difficult for people to feel that the political system is representing them. The biggest danger or impediment to political reform is the public apathy. One sometimes hopes that the public apathy will stimulate the politicians to get their act together but they also work within the kind of structure that they have.

**CHAIR**—Really, we have got a chicken and egg situation.

**Prof. Steven**—We haven't got a lot of hope. I would say Japan is going to limp along in the way that it has done and it is going to remain industrially dominant in the region. The most significant change that has taken place in Japan since the mid-1980s has been the internationalisation of Japanese business: the huge flows of foreign direct investment; the expansion and linkage of investment, trade and finance; the expansion of banking into the region; and especially direct investment. I think that is the single biggest change and the one having the biggest impact on us. What it means for us, though, is that Asia will regain its status as the productive powerhouse of the region.

Asia's productive power is Japan's technology combined with Asian work habits—also Asian wages—and things that Japan cannot do in Japan, such as the availability of cheap land and the freedom to pollute. There are a lot of things that Japanese business can do in Asia that it cannot do in Japan.

The powerhouse of Asia remains Japan and I think a lot of that power will flow this way in terms of imports. I really believe that Australia needs industry policy. One of my views is that Australia has a weak technological base. We have a strong knowledge base but we do not institutionalise the knowledge incorporations that operate in Australia. If there is anything that in my view is the secret of Japan's success it is that it has strong production, it has historically had strong banks and it has had strong traders. There are some problems there at the moment but what determines success globally today is that a company can sell internationally, produce internationally and command its own finance. If you have a system with networks that are vertical to the degree that Australia's are rather than horizontal as well, I think it becomes difficult to survive in this lean, mean, competitive, globalised world.

The strength that will come from Asia in terms of cheap manufactures could really be problematic for Australian industry. We used to rely so much on commodities but the collapse of commodity prices makes it extremely urgent for Australia to have a manufacturing industry with indigenous institutions. Our top companies are not producers; they are miners, bankers or insurers.

**CHAIR**—Having looked at the Japanese side, what about the role of the Australian government and/or state governments and/or industry groups within Australia? What should be the role there? I have made this question as broad as I can so that you have the opportunity to speak across the board.

**Prof. Steven**—I suppose trying to encourage the institutionalisation of knowledges. There are a lot of knowledges that come from Australian universities, for example. Governments do not offer companies the support to develop these knowledges. The biggest technological changes take place within companies when they improve incrementally technology that they started with. Unless Australian companies can be supported and subsidised initially until the technology becomes basically profitable, the development of that technology will go overseas and some other corporation will get it past that early stage and then run with it.

**CHAIR**—We have had it said to us today that one of the greatest inhibitors that Australia has is the fact that it does not have a sizeable marketplace in which these technologies can be developed and can flourish.

**Prof. Steven**—One does not have to have the marketplace in Australia to do all that. One can subsidise and, to some degree, subsidise companies to export. For example, in the manufacture of boats—even small yachts—some of that could have been done. Some companies which could have been producing some of these things are not supported by the government.

**CHAIR**—There is a ships bounty which supports the production of small vessels.

**Prof. Steven**—I am just thinking of a particular case which did not happen.

**CHAIR**—I spoke in the debate recently.

**Prof. Steven**—I am thinking of a case some years ago which did not happen.

**CHAIR**—By the way, it only extended it until the end of 1999.

**Prof. Steven**—One does not have to have a market for all the product within Australia in order to be able to do it. One can, to some degree, rely on export markets. Some subsidisation is foolish. The Malaysian government's subsidisation of Proton Saga cars to export them at a very great loss is foolish. There must be potential for the thing to be able to stand on its own at some point.

The conventional wisdom of the last number of years—and I think the Asian crisis has to some extent laid some of that wisdom to rest—that the marketplace is the mechanism for determining which ventures should get off the ground and which should be supported is wrong. One must make judgments. The way in which MITI used to work was to make judgments: hope that it can work, don't ride with it if it is proving to be a loser, but do try to sell it winners, do try to back them and support them for a reasonable amount of time—if necessary, in export markets.

**CHAIR**—You are seeing this as being a centralised process.

**Prof. Steven**—Not necessarily, but to some degree a network process involving central institutions but other institutions as well. I use the word 'network' because I believe the world today flourishes through synergies: one activity spills over into the next, which spills over into the next. New technologies are very, very difficult to transfer. They only transfer between institutions that are already a little bit equal. You cannot even import new technologies if you do not already have a fairly high level. Australia has high tech in quite a few areas. I believe that networks linking these through government and sectoral activities are also pretty important. I do not have a blueprint for Australia.

**CHAIR**—I was hoping that you had; it would have made the rest of this inquiry very easy. I say that tongue-in-cheek, of course. I think the information you have given us has been very useful.

**Senator LIGHTFOOT**—The American system—I guess it is a Western world system—which is to throw money at the problem and it will go away, does not seem to have worked. The multi-trillion dollar package in November 1997 has not pulled Japan out of it. There is still a big surplus with the United States. It seems to me, after all the witnesses that we have spoken to over the last few months, that Japan needs to resolve the fiscal problems and the debilitation that it is going through itself. They can choose what they want from France, the UK, China or whatever country, but they appear to me, by necessity, to have to resolve the issue themselves. We want it resolved, if only for selfish reasons. We still have a pre-eminent position with Japan. Can you tell us whether there is any alternative to what I have just said?

**Prof. Steven**—That is right and that is why I think it is a five- to 10-year problem—Japan will not let its banks go bust; the banks will be supported and bailed out slowly by government.

**Senator LIGHTFOOT**—They have the money to do it—there are no problems with that.

**Prof. Steven**—It will cost the taxpayer and slow down the revival in domestic consumption because people's taxes will not be—

**Senator LIGHTFOOT**—Is there some trigger mechanism to pull the hatch on that silo of personal savings—some incentive that the government can use? You could put a tax on saved money. That massive amount of money is sitting there doing nothing—not even earning any appreciable interest, if any, sometimes.

**Prof. Steven**—If people felt more secure socially they would not feel the need to save so much. They would only feel secure socially if they were actually secure socially.

**Senator LIGHTFOOT**—That is the classic catch-22 situation.

**Prof. Steven**—You would have to build a welfare state before the recession starts, rather than afterwards, because everyone knows welfare states do not work when they are needed—they are cut when they are needed because no government can afford them. So you always have to build a welfare state after a recession, in a boom, and flash it about and make everyone pretend to feel safe.

Japan did not do that because Japan opted for a system of private institutions. Instead of having a state system of welfare it was a private system of welfare through the company. There was no demand for state welfare because the people who had the power to demand welfare were already getting it.

**Senator LIGHTFOOT**—Now those big institutions have walked away from what was their responsibility.

**Prof. Steven**—Yes, so people are right—they are insecure. They have got it right; if they did not say that they would be in trouble. So you cannot take their security away from them by taxing them. That would make it worse for them—they would save more then. It is what van Wolferen calls the 'Japanese system'—the social, political system of relationships and networks. What goes on now with these pressures, the credit crunch and the general recession is that new alliances are formed. Some businesses go bust and some get into big trouble, the mura gets into big trouble, but they form new alliances to support them and tide them over the next series of problems. They do not change and throw themselves at the mercy of the market; on the contrary they contract and throw themselves at the mercy of themselves and their relationships and their securities. It is the political, economic and social system as a whole; it is not a system that changes rapidly.

Even the so-called 'big bang' in finance people give a kind of B these days; it is sort of happening but not a lot is going on. It has been going on for a year now but it has not really made much difference. Maybe in five years time something will have happened.

**Senator LIGHTFOOT**—It may be a case of 'surgeon heal thyself'.

**Prof. Steven**—Yes, but it will be slow. Some people say Japan is a nicer society to be in because it is not so ruthless—it does not pull the plug so totally on everyone and that people feel still more secure with their relationships because family and other relationships still are

important. I know this is on the public record, but it may as well be known: I remember at one time a member of the family of my ex-wife got into trouble with some shady interests who were putting pressure to pay the money back and the family, wherever it was globally, was pressured and tapped on the shoulder to cough up. Of course, we coughed up huge amounts of money. So those networks still work and if you are part of those networks you respond to them. Those are the main things people rely on.

**Senator LIGHTFOOT**—If it works.

**Prof. Steven**—Ten years.

**Senator LIGHTFOOT**—Nothing succeeds like success.

**CHAIR**—How well do you think Australians understand the Japanese psyche and the Japanese way of operating and doing things? Is that an inhibitor for us and for our businesses?

**Prof. Steven**—I do not think the Japanese understand foreigners very well—to reverse it.

**CHAIR**—You can reverse it, but then could you answer my question.

**Prof. Steven**—I do not think Japanese understand Australians or foreigners very well. Like the previous speaker said, they really do not speak English. If you go to Japan nobody will speak English to you. I think there is a growing sophistication in Australia for understanding foreigners. I am a migrant five times round—South Africa, England, Canada, New Zealand and Australia. I have lived in all those countries and I would say Australia is the best at understanding foreigners. It is very diverse—Australia is very open to understanding and accepting that people do different things.

I teach Japanese politics and society at the university. The people that I come into contact with have a very sophisticated understanding. There are a lot of people in Australia who are very fluent in the Japanese language. Australia is really very well resourced to deal well with Japan and to rely on its highly trained people in that area. I would think that, compared to a lot of countries, Australia is much better off in that respect. There is still a lot of red-neckism and racism towards Asian people in Australia, but I do not feel that that gets in the way at the level of government and business with people I have talked to. It is strong in some elements of the population but it is not so strong where it matters. I am quite optimistic about that.

**CHAIR**—About our ability to make an assessment of the Japanese situation as it continues to change?

**Prof. Steven**—Yes.

**CHAIR**—This is the first time this committee has looked specifically at Japan and its economy in the last 25 years. It came about only because we were looking at the future of APEC and Australia's role in APEC and we saw Japan as being pivotal to Australia's economic and industrial future.

**Prof. Steven**—Maybe government is not plugged into a lot of that. I am extremely impressed with the fluency of young people in the language and with the kinds of exchange programs in which they are involved. A lot of our students go on exchange programs now that last for a year or six months. They are entering Japanese universities. They are studying in Japanese universities and holding their own there. I could not have done that in my day.

**CHAIR**—So you are saying that possibly the younger generation have a better appreciation than—dare I say it—we older people.

**Prof. Steven**—I think they have the language and they have lived in Japan. They have done home stays, they have lived in Japanese families. There is more exchange at the grassroots level that way. One of the worries—and I heard the previous comments—is that I do not think there is a lot of good grassroots contact. I do not think the tourists mix with Australian people very well. I think that is a problem. Maybe what we are getting is limited, because the people in the universities are an elite group who learn the language. At the popular level I do not think the understanding is so great.

Something in my summary that we have not really touched on—and it may be alarmist but people might say that if the war in Yugoslavia had been predicted it would have been alarmist—is that there is a very strong body of academic opinion that is recognising that globalisation causes nationalism. Globalisation is supposed to undermine nationalism. Globalisation is supposed to create a global village but it does not. There is so much migration of peoples, there is so much migration of goods, there are so many arms sellers, there are so many corruptly supported political leaders of all kinds that globalisation produces crisis and nationalisms—crazy nationalisms. The times that we live in are times of crazy nationalisms caused by globalisations. We have seen them in Europe but the level of migration that is going on in the Asian region, the level of political problems that are occurring in the countries that have been victims of the Asia crisis is very great. The potential political explosions there are very great.

**Senator LIGHTFOOT**—Which countries?

**Prof. Steven**—Indonesia in particular. The political explosion in Indonesia in particular is very great. Crazy nationalisms are always possible in Indonesia, I think.

**Senator LIGHTFOOT**—Globalisation produces villages; it does not produce a global village?

**Prof. Steven**—It produces villages that have interacted with and become competitive with other villages and then there are spill-overs of population between them, which increases a lot of these hostilities. In areas of poverty, nationalism is the vehicle of our time for expressing political protest—religion and nationalisms. I believe that the kinds of wars we have in our time are what we might call third world wars—wars that are waged against crazy nationalisms. There will always be a good reason to do it, but they will never work. There is good reason for NATO to be involved in Yugoslavia but it will not work. There was good reason to be involved in the Gulf War but it did not work. These are wars against crazy nationalisms of the Third World. Japan will want to be involved in those in some way



because Japan will have interests that will matter. Japan's interests are very wide and important in Asia.

**Senator LIGHTFOOT**—But Japan does not have any sectarian issues like Bosnia, Indonesia, Malaysia, India, Africa.

**Prof. Steven**—Not within it no, but Japan has very important interests in Indonesia and in all of these countries of the region. North Korea is a crazy regime. Japan is always very edgy about North Korea and what kinds of things can happen there.

**CHAIR**—Are you saying that this will lead Japan to a different role within the region from what it currently has?

**Prof. Steven**—Yes, Japan will want and demand a political role in the region.

**Senator LIGHTFOOT**—A policeman's role?

**Prof. Steven**—Not independent of international organisations, definitely not an independent one. It just would not work. The Japanese people and nobody else would tolerate it. But increasingly Japan will want to be part of that and will get sucked into it. Australia will be sucked into it with Japan in some kind of way.

**Senator LIGHTFOOT**—Where is the vortex there? Is it Indonesia?

**Prof. Steven**—I think so. I think Indonesia is one possible one but you do not really know. Places like Malaysia are very explosive ethnically, because the three great cultures of Asia meet there within the same country and these social inequalities always take an ethnic form in these countries, so the ethnic protest then becomes nationalist and then the nationalist protest becomes a demand for state power. Then the demand for state power becomes a military conflict.

Civil wars always get internationalised. In the previous world order they got internationalised through superpower rivalry; now they get internationalised through joint superpower watching and saying, 'We have to prevent this from exploding too greatly. We have to keep a lid on it.' It is a little bit alarmist in the Asian region, but that is the one we have to be concerned about. I think we have to be careful of nationalisms exploding and getting ourselves sucked in too much in the third world war mentality that we have to intervene in these kinds of things.

**Senator LIGHTFOOT**—Before we have a third world war.

**Prof. Steven**—Before we have a third world war we should intervene sensibly, sociably and politically and play constructive roles.

**Senator LIGHTFOOT**—I appreciate your saying that.

**CHAIR**—Thanks very much, Professor Steven. We have appreciated your evidence this afternoon. We will take what you have put before us into consideration in the writing of our report.

**Committee adjourned at 4.47 p.m.**